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# THE WEALTH OF LABOR

FRANK LOOMIS PALMER

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Prof. F. W. Taussig.

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# THE WEALTH OF LABOR

BY

FRANK LOOMIS PALMER

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1895

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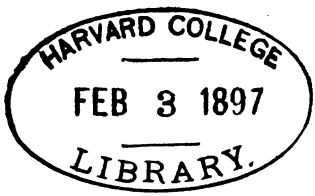


Prof. H. W. Tausig

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# CONTENTS.

PAGE

INTRODUCTION ..... ix

CHAPTER I.

THE NECESSITY OF A NEW STATEMENT..... 1

CHAPTER II.

EXCHANGE IN PRIMITIVE COMMUNITIES..... 9

CHAPTER III.

THE EXPERIMENTAL EXCHANGES OF A STUDENT OF BASTIAT IN THESE PRIMITIVE COMMUNITIES..... 40

CHAPTER IV.

MAINTAINING THE PROFIT OF EXCHANGE..... 57

CHAPTER V.

VARIOUS SYSTEMS THAT DISTRIBUTE AND EQUALIZE THE PROFITS OF LABOR..... 82



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## CHAPTER VI.

PAGE

THE CONSIDERATION OF CAPITAL AND CAPITALIZATION BEFORE A FINAL DEDUCTION CAN BE MADE . . . . 115

## CHAPTER VII.

EXCHANGEABLE VALUE IN A COMMUNITY DETERMINED BY THE COST OF LABOR TO OBTAIN IN PRODUCTION . . . . . 123

## CHAPTER VIII.

DEDUCTIONS . . . . . 161

## CHAPTER IX.

OPINION . . . . . 174

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# INTRODUCTION.

THE wealth of labor cannot be determined by the wealth of nations. China, during a long period one of the richest of nations, was notorious for the poverty of its labor, and many countries in the poverty of their youth have been conspicuous for the wealth of their labor.

The wealth of both a nation and its labor, in so far as they may be determined by international exchange, after nearly a century of active and passionate discussion, are still problems. One not familiar with the subject, reviewing this controversy, would suppose that the fundamental principles of it must be so generally known and well understood that they need seldom be referred to, and would be greatly surprised that history instead of mathematics should com-



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monly be relied upon in calculating the profit of exchange of an advantage of production.

Even the more impartial investigators in this department of political science, in pointing out the effects of inducing labor into occupations that it would not naturally engage in, frequently overlook that labor in consequence is induced out of other occupations, thus calculating the profit or loss of exchange caused by increasing the production of some commodities without reckoning that caused by diminishing the production of others. They commonly represent a community's loss by the greater amount of a commodity that its labor producing it might obtain of it by working in some other and exchanging elsewhere, when perhaps the attempt to exchange more of this other commodity might reduce its value and prevent its exchange at any profit.

Moreover they make final deductions without having noticed that an occupation may be of less advantage than some others in the same community, and labor require inducements to engage in it, and still be one of great advan-

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tage compared with the same occupation in other communities; or without having considered that which is still more important to the labor of a favored community,—the variation in its share of its products that takes place with variation in its production of commodities in which its advantage depends upon a difference in rent for equal privileges compared with other communities. Therefore broader conclusions have been reached than have been established, which might have been otherwise if the profit of exchange had been uniformly calculated in the value of labor.

Except upon the assumption that it has not been made sufficiently clear that labor reduces the value of all its products to their value in labor (that is, to the cost of labor to obtain in production) and that it is precisely upon this account that it may be usefully employed as the standard of value, it would be difficult to account for the apparent inconsistency of Adam Smith and other economic writers who have accepted and promulgated his doctrine of labor, which declares that labor is "the universal agent in the pro-

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duction of wealth," and "the only universal and only accurate measure of value," and "the only standard by which we can compare the value of different commodities at all times and in all places," yet by their works have shown little evidence of faith in this monotheistic creed they have publicly professed. Instead of rearing the superstructure of economic science by the one measure employed in laying this secure foundation, they have allowed the profit of stock and rent of land to occupy places on the throne with labor, and, wandering from the true faith, appear to have built awry under the government of this triumvirate.

If labor is "the universal agent" in the production of wealth—and it is at least wholly unlike all others that in any way extend or limit its power to produce or obtain it—labor may be considered to be the creator or producer of wealth, and all other agents as conditions of production and exchange under which labor produces and obtains "the necessaries, conveniences, and amusements of human life." The power of labor to command these is variable,

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and some of them of the greatest value have no value in labor; therefore labor cannot measure this *real* value; on the contrary, the real value of labor is measured by its power to command, in some proportionate amounts, all of them.

One is induced to produce wealth by a desire to obtain it, and the relative value of the various commodities that one labors in production to obtain is determined by the proportionate cost of labor to obtain them, for one will produce that proportionate quantity of each that will maintain them all at this proportionate value to him. It is evident he would not produce those of less value than they would cost in labor, and if any were of greater value would produce exclusively the one of greatest. Labor may be purchased for an amount of wealth already produced equal to that that it obtains in production, and it could not be bought for less, and if it could exchange for more would cease to obtain in production altogether; therefore the value of labor's products in labor is also determined by the cost of labor to obtain them in production, so that at every point of pro-

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duction the exchangeable value of the different commodities produced there will be proportionate to the cost of labor to obtain them in production there, and will command an equal value of labor there (otherwise labor shifts occupations). But as labor at different points of production must obtain under different conditions of exchange (for "the necessaries, conveniences, and amusements of human life"), the value of the products of labor that exchange between them is proportionate to the cost of labor to obtain in production and exchange (otherwise labor shifts locations).

Labor thus marks the value of all its products in the cost of labor to obtain, and those commodities that will not sell at this price it refuses to produce, and those that will command more it produces in quantities sufficient to reduce them to this value.

This fundamental law, absolute with respect to individual laborers and operative with respect to all labor, is modified by natural and artificial impediments to the effective competition of labor for the privilege of obtaining under

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the most favorable conditions of production and exchange, and these impediments prevent the equalization of the standard of all labor of the same quality of all communities. In communities where labor is free to shift occupations resistance to this law must be ineffectual, and nations can rely upon it to determine the exchangeable value of the products and equalize the wages of its labor.

When labor in production obtains only a part of the wealth it produces, the exchangeable value of labor's share is equal to the value of the labor required to produce the whole, and the exchangeable value of the other share or shares (interest and rent) is also proportionate to the cost of labor to obtain its share; therefore the exchangeable value of the products of labor is not proportionate to the amount of labor it requires to produce them, but to the cost of labor to obtain the share that labor receives of them; and the cost of labor to obtain its share is determined by the more or less favorable conditions of production and exchange under which it obtains it.

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Labor may be considered the only cost of production. Interest and rent represent conditions of production that affect the cost of labor to obtain and the exchangeable value of commodities precisely the same as other equally more or less favorable conditions would do; therefore these two impassive sharers in the products of labor must be allowed to take their proper place among, and be examined with, all the other more or less favorable conditions under which labor obtains its commodities.

Upon this plan of inquiry a difference in the *real* value of the same quality of labor in different communities will represent the comparative wealth of labors and must be wholly due to a difference in the conditions of production and exchange under which the labors compared obtain "the necessaries, conveniences, and amusements of human life," so that the wealth of any particular labor will depend upon its more or less favorable conditions of production and exchange.

More favorable conditions of production in one community will give to its labor advan-

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tages which will make it possible for it to exchange elsewhere at a profit of labor. Making allowance for transportation, the difference in the cost of labor to obtain in production the same commodity represents the profit of its exchange, and this commodity of advantage in one community, when exchanging elsewhere for a commodity in which both communities have equal advantage, may under different circumstances be valued at the cost of labor to obtain it in either community, and consequently the other community reap the whole profit of its exchange; or it may be valued anywhere between these extremes with a corresponding division of the profit, and its exchangeable value will be determined by the proportionate competition of different communities for the profit of its exchange. When two commodities are exchanged, one of advantage in one community and the other of advantage in the other, as the profit of exchange of each advantage is entirely independent of the other, the amount that either community will reap of the profit of exchange of each will also depend upon the proportionate

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competition for the profit of exchange of each, and it may be the same or reversed with respect to both, so that it is possible that the whole profit of exchange may be reaped by either party to it or by both in any different proportions according to the circumstances.

The share that a community will reap of the profit of exchange of its own advantages will depend upon the amount of its labor that is competing for it.

As commodities of greatest advantage will exchange elsewhere with the greatest profit, labor must produce them to the extent of reducing their value and profit of exchange before it will engage in occupations of less advantage. In order to maintain the profit of exchange of these commodities of advantage their production must be limited to that quantity that will exchange with the greatest total profit of labor. To accomplish this labor must be induced to enter occupations of less advantage; not occupations of less advantage compared with the same occupations in other communities, for that would unnecessarily reduce its profit of exchange of the ad-

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vantages of other communities, but of less advantage compared with other occupations in the same community. Labor can only be induced into occupations of less advantage by equalizing its profit in them to its greater profit in other occupations. Equalizing the profits of labor in different occupations in order to maintain the profit of exchange is a means for the division of that profit with the labor engaged in those occupations that could not share it otherwise.

By comparing equal labor in various occupations in the same and different communities under various conditions of production and exchange, and by showing suitable examples, the writer endeavors to elucidate some of the principles of exchange.

Assuming the conditions of production in two communities to be equally favorable with respect to all commodities except one, one can readily see an advantage of production in such bold relief that the competition of labor of both communities for the profit of that advantage can be carefully examined and the results accu-

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rately measured. By varying the conditions of exchange or the proportionate competition in the different communities all the principles of the exchange of an advantage should be disclosed.

The confidence of the writer in the capability of this method of showing the principles of exchange by no means extends to his presentation of the subject, and the value of it must not be determined by the study here outlined, which was entered upon with more hope than expectation.

Before proceeding far it developed that the only competition a nation need limit or protect itself against was the *competition of its own labor for the profit of the exchange of its own advantages.* The profit of exchange of an advantage of production was found to depend upon the amount of competition engaged in it, and it further appeared that if the advantage was one capable of capitalization, as most natural ones are, the share of labor in the advantage itself depended upon the same circumstance, for the same competition that would

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reduce the profit of exchange would also increase the capitalization of the advantage.

It was also made clear that that part of the advantage that became capitalized would be maintained by the community under any circumstances; therefore it followed that the interest of labor in limiting competition in its advantages of production was very much greater than that of the community itself. So that, in the endeavor to learn from examples under what circumstances the wealth of a favored nation could be maintained, the essential conditions disclosed proved to be of far greater value for the maintenance of the wealth of its labor.

The demonstration of surprising truth is at first considered to be ingenious fallacy. No false step will appear in the onward march from the premises, but, arriving at such unexpected conclusions, one feels that he has been skilfully guided in the path of error; if the following examples are in any degree fallacious no claim of ingenuity can save the author from disappointment, for they were not devised to illustrate any preconceived notion or belief, but to

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disclose and establish the truth. As some things that they appear to show to be true are disappointing as well as unexpected, if they prove to be error the author will have no room for wounded pride in the light of more agreeable truth.

FRANK LOOMIS PALMER.

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# THE WEALTH OF LABOR.

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## CHAPTER I.

### THE NECESSITY OF A NEW STATEMENT.

INTUITION, the most common resource of mankind when science has not established principles upon which it can base opinion, has settled it in the minds of many people of this country that our improved standard, as compared with other countries, is principally due to our protective policy. Many others, taking the ground that wealth cannot be created by law (and overlooking the fact that law can appropriate and conserve it), very properly have maintained that it is all due to our natural and other advantages, and that the meddlesome tariff has



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simply prevented the most economical and equitable distribution of them. Science has declared, to quote Mr. Lunt, "that international exchanges of commodities take place only when economy of production would thereby be promoted," and economists (alive to the advantages of exchange, but dead to the unequal profit of it) have assumed therefrom that unlimited exchange must benefit every community that adopts it, and they have looked with wonder upon a country with wealth enough to permit so high a standard with such a fatal policy. Students and professional men, most familiar with these writers, with little resistance have accepted their conclusions. On the other hand, we have a great part of the industrial world, with a more powerful instinct than argument for protection, supporting an accidental, aimless, and undefined policy of it as best they may with any evidence they can collect.

At the close of Mr. Reed's speech against the Wilson Tariff Bill, after the deafening applause had subsided, Mr. Crisp, conceding that the cause of protection had just been presented by

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its ablest advocate, justly denied that any proofs had been furnished in support of the statement that the prevailing high wages in this country were due to the protective system, and then, employing the same unscientific method of argument, proceeded to demolish the position of his adversary. He declared that the Aldrich report showed that in fifteen non-protected industries the wages of working-men had been increased, while wages in the same number of protected industries had been reduced. The wages of protected and non-protected industries have frequently been compared, and by no less a personage than Mr. Gladstone, to show that protection does not increase wages. Whoever compares the wages of different occupations in the same community to show that protection does or does not increase wages (even having the advantage, over those who have already done so, of knowing which occupations are the protected ones) demonstrates only that he himself has not considered the following primary law of labor-exchange: That with labor free to shift occupations, no system

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can maintain higher wages in one employment than in another for the same quality of labor.

Later in the debate, Mr. Wilson (of West Virginia) said: "We are trying an *experiment*, whether in God's name we can establish a country where every man born into it can raise himself to a degree of ease and comfort, and not be compelled to live a life of degrading toil for the mere necessities of existence."

A member from Massachusetts, in the heat of controversy, inquired of a member from New York: "If all manufactured goods were offered a free gift, would it be desirable for this country to accept them?" and the member from New York, uncertain about the matter, refused to answer. The member from Massachusetts thought he knew, and replied to his own question with great unction, that it would be the greatest curse he could conceive of.

The hopeless error of some, the confusion of many, and the uncertainty of all, concerning these economic questions, the proper understanding of which is so important to our welfare, suggests that some different method might

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profitably be employed in the examination of the principles that underlie this subject, some further knowledge of which seems absolutely necessary before any other than an experimental policy can be adopted.

Mr. Carr says: "I am a convinced free-trader. Protection is to me an economic heresy, the fraud and folly of which are capable of mathematical demonstration; and yet throughout the length and breadth of this vast continent one is almost daily brought face to face with facts that seem to give the lie to the soundest and most universally accepted axioms of political economy." Mr. Reed says: "The fact that the subject is still before the people shows that the last word has not yet been said, and that the subject has not yet been exhausted or understood."

Mr. Lodge, in his recent masterly address to the Senate, found no better definition for protection than: "The protectionists' theory is to discriminate by duties in favor of every article which can be grown or manufactured in the protected country in sufficient quantities for the use of the people."

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If protection must find support upon this definition of its principle, which would reduce most countries guided by it to extreme poverty, it is a lost cause, for there are but few commodities that could not be grown or manufactured in almost any country that was willing to waste its labor upon commodities in which it had great disadvantages of production, instead of exchanging for them.

If no better definition for protection than this, which ignores all profitable exchange of commodities, can be found by such able advocates, and there still be any value in the principle, then who can doubt that the principle itself has not been understood, and that there are missing links in the chain that the economists have wrought? The attempt to supply these missing links may be an ambitious task, but failure will leave one in such good company that it is worth a trial. It is important at the outset to determine the problem we have to solve.

Mr. Wilson said in his speech: "I agree with the gentleman from Maine [Mr. Reed], that the

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question of general welfare and the question of general wages of working-men are, after all, the vital questions in this controversy."

It is always a fortunate circumstance to find adversaries in perfect agreement upon one vital point, and it is particularly so in this case, as our question is reduced to a problem of labor; and if, in pushing our inquiry in labor's cause, capital at times should demand a hearing, we may refuse her audience on the ground that we are considering only *the wealth of labor.*

The wage of working-men is thought by many to be a subject apart from the remuneration for the services of all men; but if in a community any given quality of labor or service bears a definite relation to all other service, and if remuneration for these various services is proportionate to their different qualities, then the wages of labor include all income that every individual in a community receives, except rent and interest; therefore the subject is of direct importance to all who do not depend for support wholly upon rent and the interest of accumulated capital.

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Although the question is still before us as to what the policy of exchange must be, under various circumstances, to maintain the highest standard of labor in a community, labor will be found united upon the following definition of that standard; namely, the greatest quantity of the most desirable commodities with the least amount of labor or service. These commodities that may be obtained by labor or service are the wages of labor; therefore that labor which obtains the greatest amount of these commodities for a given amount of labor receives the highest wages, and is commonly called dear labor. Labor which obtains the smallest amount of these commodities for a given amount of labor receives the lowest wages, and is commonly called cheap labor. Therefore the quantity of these commodities that can be obtained for a given amount of labor or service determines the wages of that labor, and also represents the standard of living that that labor can maintain.

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## CHAPTER II.

### EXCHANGE IN PRIMITIVE COMMUNITIES.

OUR subject seems to require islands the better to illustrate it, and I have found a group in the ocean of hypotheses that I desire the reader to investigate. Two of these islands were of considerable area, and each was capable of sustaining a population many times greater than the present inhabitants of both. Consequently land had not as yet become of value, and we are not forced to take into consideration the factor of rent. They lay in close proximity. The soil of one was poor, and this we will name Barren Island; the soil of the other was excellent, and we will call it Fertile Island.

The people of these islands at the time of discovery had no intercourse with one another,



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but they were a like people, possessed of the same habits and acquirements, each consuming the same quantity of food and shelter. (It must be kept in mind that under this term "shelter" is included every commodity obtained by their labor and made use of by them, except food.) The people of both islands were naturally anxious to obtain, with the fewest hours of work, the products of labor which they felt it necessary to have, and were equally ready to stop labor when their stint was accomplished. All the conditions of life of these two peoples were the same except in the one important difference of the fertility of the soil.

On Barren Island a man working twelve hours a day supplied the needs of himself and family. He was obliged to work six hours per day to supply himself with shelter, and six hours' additional work was necessary to obtain the food he required. Some worked exclusively in shelter, others exclusively in agriculture, and exchanged with one another food and shelter proportionate to the cost of labor to obtain them. The equal exchange in the same

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community of that quantity of different commodities that may be obtained by equal labor there, perhaps one may for a moment doubt. If Long Island Sound were our only source of supply for the uncultivated clam and oyster, and one man in one day could obtain two bushels of clams and another man by equal labor could obtain one bushel of oysters, it would be found that they would exchange on the basis of two bushels of clams for one bushel of oysters, and at the market the same sum would purchase two bushels of clams that was required to purchase a bushel of oysters.

Suppose that on the Pacific coast native oysters were more plentiful than clams, and that a man by equal labor could obtain twice as many oysters as clams: with no other source of supply, or with no other market, who will doubt that over there two bushels of oysters would exchange for one bushel of clams, and that in those markets two bushels of oysters would command the same price as one bushel of clams? If they did not, labor would shift from the occupation that paid less to the one that

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paid greater, and either clams or oysters would disappear from those markets until they exchanged or sold upon this basis.

With labor free to shift occupations, the same quality of labor cannot be maintained in two occupations in the same community with the labor of one occupation being able to exchange more favorably (for more wages) than the other.

That temporary inequality that is continually happening in the wages of labor in different occupations, and which is so frequently and fallaciously made use of to support some favorite opinion, must not be considered in conflict with this principle.

Some years ago a distinguished writer upon economic subjects directed attention to a temporary depression in the cotton industry of this country, which, if it was to be permanent, as he evidently considered it would be under the existing governmental policy, might support his recommendation for a change in that policy. The impatient operation of economic law scarcely gave time for publication of this argument so hazardously based upon the one posi-

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tion of the pendulum before it began to move in the opposite direction, and this industry entered upon a period of extraordinary prosperity, which quite balanced the depression through which it had passed.

After consideration no one, I think, will doubt the following law: In a community with labor free to shift occupations the products of labor exchange proportionately to the cost of labor to obtain them; and when any particular product of labor will not so exchange, sufficient labor will abandon or enter that particular occupation to establish that proportionate exchange.

Now it is the operation of this law that regulates the supply of commodities to demand. In a small and simply organized community a laborer might discover at the end of each day whether his labor would exchange as favorably as other labor of the same quality, and could correct any inequality by changing his occupation the following day; and in such a hypothetical community economic laws can be best examined. We shall therefore exclude skilled labor and, at present, capital from these islands

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in order that we may most clearly see the operations of these primary laws of exchange, and proceed upon the assumption that with labor free to shift occupations (and no community can justly afford to permit otherwise) the proportionate wages of all labor or service in a community (including that service united with capital) depend upon the proportionate value or quality of the labor or service they exchange for. And later, in the examination of the circumstances that operate to affect (and under this assumption must affect alike) the wages of all labor and service in a community—among which must be included variations in the proportionate accumulation of stock and value of its use (represented by variations in interest), variations in the proportionate natural advantage capable of capitalization and value of its use (represented by variations in rent), and variations in the profit of exchange elsewhere—we need concern ourselves with interest and rent only so far as the variations that may be caused in them by exchange elsewhere may affect wages; but even this will make it necessary to

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know what effect the variation of each has upon the wages of labor. And when occasion requires that we shall examine the relation of these two elements to labor and service, we shall do so independently of the labor or service that may be united with them, for their relation to that service must be precisely the same as to all other.

We believe that what follows will justify the use of the terms "interest" and "rent" to represent the conditions that determine them.

Economic laws must exert the same power to the same end in large and highly organized states, although their effect may be obscured or modified by the operation of other laws that are brought in with every added element that is introduced into a society.

In order to best acquaint ourselves with a natural law we must examine its operation under the simplest conditions. Releasing a stone and a feather from a height, and seeing the feather float up and up and the stone fall rapidly to the earth, we might too hastily conclude that feathers were exempt from the law of

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gravitation, the truth being, however, that in a vacuum both would reach the ground at the same time. Had not fallen bodies been examined free from the influence of air the laws that govern them might not be known.

Now upon Fertile Island a man must work as many hours as upon Barren Island to obtain the same amount of shelter, but, owing to the fertility of the soil, three hours of labor in agriculture will obtain the same quantity of food as six hours upon Barren Island; therefore, by working nine hours a day—six hours to obtain shelter and three hours to obtain food—a laborer upon Fertile Island lives otherwise exactly the same as a laborer upon Barren Island, and has three hours' time at his disposal.

If we find some laborers working upon Fertile Island exclusively in agriculture, and others exclusively in shelter, the exchange of food and shelter must be in accordance with the established law of exchange for a single community; namely, proportionate to the cost of labor to obtain them.

A, working exclusively in shelter, consumes

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the shelter which he obtains by six hours' labor, so that working nine hours he has that obtained by three hours' labor to spare and to exchange for the food that he requires, and which may be obtained by an equal amount of labor in agriculture. If he could not so exchange he would shift to agriculture, the more profitable occupation.

B, working exclusively in agriculture, consumes only that amount of food which he obtains by three hours' labor, so that working nine hours he has the food which he obtains by six hours' labor to spare and to exchange for the shelter that he requires, and which may be obtained by an equal amount of labor in shelter. If he could not so exchange he would shift to shelter, the more profitable occupation.

B can derive no more advantage from the productiveness of this soil than A, for A has equal opportunity to enter that occupation himself, and certainly would not continue in shelter if he could obtain more shelter by working in food, and this he could do if food would exchange for shelter with a less proportionate amount of labor than it costs labor to obtain

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them; therefore they must exchange, if at all, on the basis of the cost of labor to obtain them hour for hour, as upon Barren Island, notwithstanding B's hour's labor here in food will obtain double the quantity that an hour's labor will do upon Barren Island. And twice the amount of food must be given in exchange for shelter upon Fertile Island as upon Barren Island. This excess product that equal labor may obtain gives to the food labor of Fertile, as compared with Barren, Island, an advantage of production or profit of labor, but it cannot maintain the profit of this advantage in exchange with other labor in the same community. It must be given away in exchange with it and equally shared by all labor there.

(This permits us to leave out of account all of that labor employed in the production of commodities or the rendering of services that are not exchangeable between communities. These commodities or services, if obtained at all, must be from labor performed at home. This labor cannot be reached by competition elsewhere, or its employment determined by

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the value of the same quality of labor or service elsewhere, but the wages of it must be equal to that of other labor in the same community; and whatever be the profit or loss to labor resulting from the production of commodities at home or exchange of commodities elsewhere, under different circumstances, it must be equally shared by all the labor of the community, which, if not already clear, will be made so later.)

We might note in passing that the unequal bounty which nature has bestowed upon these two islands (and which has not yet become capitalized) gives to the labor of one an advantage of production that enables it to maintain a higher standard of living than that of the other. This higher standard may be expressed in the luxury of three hours' extra time at the disposal of laborers free from labor; or, if they choose, by working the three hours they can add to their material luxuries all that that amount of labor will produce.

Every advantage of production of labor, whether it proceeds from the superior bounty

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of nature (or from a greater share of the same) or from a labor-saving appliance, makes possible an improved standard of labor, and when labor makes use of an advantage of production it must accept the luxury that results in some of the following forms, namely: the luxury of reduced hours of labor; the luxury of increased quantity of the same commodities; the luxury of other commodities that it could not before have obtained with the same amount of labor.

It may take it all in any one or partly in each of the above forms. As simple as the foregoing is, it is not generally understood by labor. Working-men have seen legislators reduce the hours of labor without any apparent reduction in the amount of commodities that they could obtain, and they have not understood that improved advantages of production had made this possible, and that, had the hours of labor not been reduced, they must have received more commodities for the same labor, and the standard of living would have been improved in that way.

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We will leave these simple folk for a time in happy unconsciousness of the fate that awaits them when we shall return armed with the murderous weapons of economic law. In the search for our outfit with which to exploit these communities we must keep in mind the fact that we have these two lands in close proximity, inhabited by a like people, but, owing to the fertility of soil, the labor of one has an advantage of production and is capable of maintaining independently, without foreign exchange, a higher standard of living than the other.

It is important to each of these communities to know whether it can improve its standard of living by exchange with the other, and, if so, what policy of exchange will improve it most. It is evident that there could be no profitable exchange between them of shelter for shelter (as already they both have the advantage of the division of labor); and as shelter covers as many different commodities of equal advantage as we may choose to include in it, it follows that there can be no profitable exchange of commodities in which they both had equal ad-

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vantage of production. (We shall always mean by "equal advantage" the equal advantage of two or more communities in the same occupation, and not the equal advantage of two or more occupations in the same community.)

(It is also evident that there could be no exchange between them of food for food; and as food covers as many different commodities as we may choose to include in it, of precisely the same advantage in one and disadvantage in the other, it follows that there can be no profitable exchange between them of two commodities in which one community has precisely the same advantage or disadvantage; therefore it must be for both communities an exchange of one commodity for another of comparatively less advantage.)

(It should be observed that the terms "shelter" and "food" are simply names for commodities in which the labor of these two communities has a certain comparative advantage or disadvantage in production.)

And as all commodities that are not of equal, must be of greater advantage in one community,

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it must be, if at all, an exchange of an advantage of production. (It might be an exchange of two, but it would be unnecessarily confusing to examine more than one at a time.) Our problem is now reduced to the demonstration of the principles upon which the labor of a community can exchange a commodity in which it has an advantage of production most profitably elsewhere.

We have shown that the profit of an advantage of production could not be maintained by the particular labor engaged in it, but that it must be given away in exchange to other labor of the same community. We must now see whether the profit of an advantage can be maintained by the labor of a community possessing it or must be given away in exchange to the labor of another community.

Adam Smith has been credited with having first pointed out that there could be no voluntary exchange without both sides to it reaping profit; and many who have succeeded the Scotch professor, in their enthusiastic endeavor to promulgate this truth, have overlooked a more im-

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portant one—that the profit to the different sides may be very unequal, and, in fact, that the profit to one side may be the whole profit of an advantage of production and still the transaction be in conformity to this law.

Of the fishermen that exchanged oysters and clams perhaps neither could have obtained by equal labor the same amount of *both* clams and oysters except by following the separate occupations, and this advantage to both by the division of labor is all that is necessary to effect exchange. The profit of an advantage of production (when both sides enjoy the advantage of the division of labor) is above that advantage necessary to effect exchange. (And notwithstanding the contempt of Sir James Stewart's declaration that if "one country gains another must lose" [which we do not wish to be considered as defending], it may properly be said that that part of the profit of an advantage of production, above the profit of the division of labor, that one community gains in exchange the other must lose.)

It is true that Bastiat observes this inequality

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of profit, because he shows that that nation which had the least natural advantages had the most to gain by free exchange; but it is most astonishing that, coming to this point, he did not inquire further into the cause of this inequality of profit of exchange between different countries, and did not consider upon what circumstances it depended. He comes closer still in admitting that a country with advantages of production will have the larger share of the profits of exchange before competition in these products reduces their value, and appears not to have noticed that a community, by limiting competition in these products, might maintain this value and consequently this advantage in exchange.

If it had occurred to him that by a restrictive policy a favored country might limit the production of these products and maintain the profit of them in exchange elsewhere, he must then have seen that the nation which had the greatest advantages of production had the most to lose by unlimited exchange.

Economists have shown that in most cases it

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is folly for a nation to encourage the production of commodities in which it has disadvantages—that is, that could be obtained with less labor elsewhere—by demonstrating that it is more profitable to exchange other products of its labor for these commodities, and yet have failed to see or admit that it was ever necessary for a country to limit the production of commodities in which its labor had advantages of production in order to be able to exchange these commodities with the greatest profit elsewhere.

They seem to assume that the free exchange of commodities between all nations would give to each the products of all for the same amount of labor that it takes, under the most favorable circumstances, to produce them, and then conclude that all nations would be benefited by this policy; but even admitting the assumption, it does not follow, and is not true, that *every* nation would be benefited by a policy that would give to it all commodities for the same amount of labor that it takes, under the most favorable circumstances, to produce them, because a favored country, by profitable exchange of commodities

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in which it has advantages of production, may obtain its total of commodities for a *less* amount of labor than the amount of labor it would take, under the most favorable circumstances, to produce them. In such an assumption the question as to what means a nation might employ to maintain the most profitable exchange of a commodity in which it had an advantage of production naturally would not be considered, and also the very important question as to whether a nation with a balance of advantages above the advantages of the nation or nations with which it is asked to exchange freely would not lose more, by giving up the profit of its own, than it would gain in the profit of those that others would give up, and would not be without compensation for the loss of its own until others consented to give up theirs; and how such a nation might receive pay for this balance of profit that it is proposed to take from it by this universal policy naturally has been overlooked. And the opposite effect that this one policy must have in different communities that are unequally placed with respect to the

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proportionate capitalization of their advantages —most important of all—is not commonly noticed.

It is fortunate, in considering the points raised and others that may appear, that we will not come in conflict with established economic laws, but in perfect agreement may show their operation in such combinations as will disclose the vital principles by which a nation must be guided in order to maintain the most profitable exchange of commodities in which it has advantages of production.

In quoting from "Sophisms of Protection," by Bastiat, the writer would state that the Hon. David A. Wells edited one work of this eminent French economist, and the book first referred to was published by the American Free-trade League. Mr. White, in the preface, writes: "Bastiat is the most lucid of all writers on economical science, and although some of his admirers rank him among the highest, it is enough to count him among the greatest of expounders and demonstrators of this science."

"I have two workmen in my field: the one

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directs the handle of a plow, the other that of a spade. The result of their day's labor is very different, but the price is the same. . . . Remuneration is not proportioned to the usefulness of the articles brought by the producer into the market, but to the labor.

"In every article of production nature and man must concur, but the portion of nature is always gratuitous. Only so much of the usefulness of an article as is the result of human labor becomes the object of mutual exchange, and consequently of remuneration.

"We pay more for wheat than potatoes because to produce it nature requires more labor from man.

"It is impossible that the producer of wheat should permanently gain more than the producer of potatoes. The law of competition cannot allow it.

"The tropical regions are very favorable to the production of sugar and coffee, . . . but who reaps the advantage of this liberality of nature? Not these regions, for they are forced by competition to receive simply remuneration for their

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labor. It is mankind who is the gainer, for the result of this liberality is cheapness, and cheapness belongs to the world.

"Here in the temperate zone we find coal and iron ore on the surface of the soil. We have but to stoop and take them. At first, I grant, the immediate inhabitants profit by this fortunate circumstance, but soon comes competition, and the price of coal and iron falls until this gift of nature becomes gratuitous to all, and human labor is only paid according to the general rate of profits.

"Thus natural advantages, like improvements in the process of production, are or have a constant tendency to become, under the law of competition, the common and gratuitous patrimony consumers, of society, of mankind. Countries, therefore, which do not enjoy these advantages must gain by commerce with those which do, because the exchanges of commerce are between labor and labor. Subtraction being made of all the natural advantages which are combined with these labors; and it is evidently the most favored countries which can incorporate

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into a given labor the largest proportion of these natural advantages. Their produce, representing less labor, receives less recompense; in other words, is cheaper. If, then, all the liberality of nature results in cheapness, it is evidently not the producing, but the consuming, country which profits by her benefits. Hence we may see the enormous absurdity of the consuming country which rejects produce precisely because it is cheap. It is as though we should say we will have nothing of that which nature gives you.

"A is a favored country; B is maltreated by nature. Mutual traffic, then, is advantageous to both, but principally to B, because the exchange is not between utility and utility, but between value and value. Now A furnishes a greater utility in a similar value, because the utility of any article includes at once what nature and what labor have done, whereas the value of it only corresponds to the portion accomplished by labor. B then makes an entirely advantageous bargain, for by simply paying the producer from A for his labor it receives in return not only the results of that labor, but in

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addition there is thrown in whatever may have accrued from the superior bounty of nature.

"We will lay down the general rule: Traffic is an exchange of values, and as value is reduced by competition to the simple representation of labor, traffic is the exchange of equal labors. Whatever nature has done toward the production of the articles exchanged is given on both sides gratuitously, from whence it necessarily follows that the most advantageous commerce is transacted with those countries which are the most favored by nature."

One might reasonably inquire why we did not begin with these quotations from Bastiat, so far as any difference is shown by the examples that preceded them with respect to the principles of the exchange of labor or its products; but although the difference may not yet have been made apparent, there is a vital one. Bastiat concludes that the exchangeable value of the products of labor is proportionate to the amount of labor it takes to produce them, and that equal amounts of labor exchange with them. We have pointed out that the exchangeable

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value of the products of labor is proportionate to the cost of labor to obtain them, and that amounts of labor exchange with them proportionate to the share that labor obtains. The first is true in some cases and the second is true in all (modified only in the same degree that all laws must be that rely upon competition to establish them).

In our example of the fishermen of Long Island that obtained with equal labor one bushel of oysters and two bushels of clams, we did not inquire into the conditions under which they obtained them, and it may be that one or both had to produce a greater quantity of fish than they obtained; and if this was the case, the value of oysters and clams would still remain proportionate to the cost of labor to obtain them: but might not then be proportionate to the cost of labor to produce them.

Suppose the oysterman, to obtain the bushel of oysters, did produce two, but paid one for the use of a necessary outfit in order to get them: it is evident that this condition under which he obtained the bushel of oysters would

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not alter the ratio of exchange between oysters and clams, so that equal labor might have produced the same quantity of oysters as clams and still one bushel of oysters exchange for two bushels of clams and only one half of the amount of labor exchange with oysters as with clams.

Suppose it to have been also necessary that the oysterman should collect them in the coves and inlets, and was obliged to pay one bushel out of three for the privilege of doing so: it is evident that this second condition under which he obtained the bushel of oysters would not alter the ratio of exchange between them, so that equal labor might have produced a greater quantity of oysters than clams and still one bushel of oysters exchange for two bushels of clams and only one third of the amount of labor exchange with oysters as with clams; that is, the product of one day's labor in oysters would, under these circumstances, exchange for the product of three days' labor in clams.

It at first appeared, and it might have been the case, that fishermen exchanged equal amounts

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of their labor with their fish, yet under different conditions of obtaining them they would have exchanged different proportionate amounts, but in every case amounts proportionate to the share that labor obtains of clams and oysters under the circumstances. It should now be clear that we do not necessarily pay more for a commodity than some other "because to produce it nature requires more labor from man," but because it costs labor more labor to obtain it.

Bastiat has not permitted us to assume that he meant by the product of labor that which it did obtain, for in saying, "Whatever nature has done toward the production of articles exchanged is given on both sides gratuitously," he overlooked rent, and established his error. But this surprising oversight does not destroy the value of his statements if we limit them to a primitive community before accumulation of stock or the appropriation of land, or to commodities in which the elements of interest (payment for the use of stock or capital) and rent (payment for a natural privilege) do not enter as factors. As we are not at present concerned

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with these, we may pass on, making what use we can of his conclusions in the examination that we are about to make of exchange between primitive communities before the introduction of these elements; and until we have occasion to do so we may use "the products of labor" and "that which labor obtains" indiscriminately.

Bastiat attempted to show that under the law of competition nations must ultimately exchange on the same basis on which we have found individuals in a community where labor obtained its whole product exchanging, namely, the product of an equal amount of the same quality of labor; that all the natural wealth or advantage that either country possessed—that is, all the excess of product that equal labor might produce in the one country more than in the other—would be thrown in, and that labor in all communities must expect eventually the same general profit or wages.

But arguments and conclusions are alike based upon the assumption that the gratuities of nature are never capitalized, which is a most as-

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tonishing omission, and which makes untrue his extreme conclusion that *all* the gratuities of nature are thrown in by the labor engaged in them, in exchange with other labor either of the same or other communities. But as the capitalization of an advantage does not affect the principle upon which labor must exchange it—but simply diminishes or takes from labor the advantage itself—it does not destroy the value of his assertion that labor in all communities under free competition must eventually expect the same general profit or wages; for when free exchange is permitted between several communities, and labor is also free to shift from one to the other, then these several communities have become one community so far as the competition of labor is concerned, and the laws established for a single community must hold good, and higher wages for equal labor cannot be maintained in any of these several communities that have now become one community. The advantages of production remaining in the possession of the labor of each must be divided with all. We shall still con-

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tinue this inquiry, *not forgetting*, but ignoring, the capitalization of advantages, until we have demonstrated the principle of the exchange of them between different communities. The doctrine that the gratuities of nature, or, more truthfully, the advantages of production in the possession of the labor of a favored country, must be thrown in in exchange with one less favored when free exchange is permitted, is as true as it is comfortable to the countries which have more or less exhausted or capitalized their natural wealth (upon which the most permanent advantages of production of labor depend)—countries where this doctrine originated and is still most persistently advocated.

After assenting to the logic, but before submitting to the fate, of this law, it is worth while for a country possessed of great natural advantages not proportionately capitalized, or other advantages that are incapable of capitalization, to inquire whether there is not a way whereby the operation of this law may be suspended, so that it may prevent its advantages from being wrested from it, and may appropriate the profit

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of them to the use and benefit of its own people. True, Bastiat admits that the immediate inhabitants of a favored country may for a time, before the law of competition has completed its work, avail themselves of a larger share of the profit of their own advantages than they deliver to the countries they freely exchange with; but so soon does he expect that they will be unable to do so, or rather he appears so anxious to show the great advantages that free exchange with this helplessly exposed wealth of a nation will bring to a country less favored, that he has not thought it worth while to consider what means a favored country may employ to prevent giving away its advantages, and he has omitted to take any note of the unequal exchange that must take place during the progressive invasion of the favored country by the law of competition and before it has fully accomplished its mission.

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## CHAPTER III.

### THE EXPERIMENTAL EXCHANGES OF A STUDENT OF BASTIAT IN THESE PRIMITIVE COMMUNITIES.

ARMED for the invasion, let us return to our islands. Before we hurl the "dismal science" into the midst of them we should reconnoiter a little, and fully understand the possibilities that may result from exchange among these people.

On a small, desolate island adjacent to Barren Island, which we will call Barren Annex, a retiring man, whose custom it was to work twelve hours a day upon shelter and to exchange six hours of the product of that labor in the Barren Island market for the food he required, strolling upon the beach one day, picked up a copy of Bastiat that had been washed ashore with other wreckage of some unfortunate vessel. He be-



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came very much interested in this work, and noticed that the author had embodied in one conclusion the principal result of his researches, namely: "I say, and I sincerely believe, that of any two countries that are placed in unequal circumstances as to advantage of production that one of the two which is the less favored by nature will gain more by freedom of commerce." It pleased him to see how admirably this law applied to his own situation. He realized that for all purposes of exchange his family represented a nation, and that although his island was sterile yet he could produce shelter there, and by free exchange with Barren Island could maintain the same standard of living that it possessed; that is, by working twelve hours a day he was provided with all his needs.

His curiosity aroused, he resolved to try exchange with Fertile Island. Wishing to visit this country by daylight, he stopped work three hours earlier than usual, and therefore had only the product of three hours' shelter labor to take for exchange; but to his astonishment he found his three hours' shelter would exchange for

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three hours' food, and that this three hours' food was equal to six hours' food at home; that is, he received as much food for that three hours of shelter as he commonly obtained on Barren Island for six hours' shelter. Fertile Island exchanged with him on the basis of labor for labor, as Bastiat had taught him to expect. They had given him for his shelter labor an equal amount of their food labor, and had thrown in all the gratuity of nature; consequently his standard was now raised to the standard of Fertile Island, and nine hours' work now provided him with all his needs. He applied the test of Bastiat's law to his transaction, and found them to be in harmony, and his enthusiasm inclined him to make the law now read, "The least favored country gained most by free exchange with the most favored;" and, considering his own transaction, whereby he had raised his standard of living to that of the more favored community, he could not see how they had improved their own condition.

Having observed a small, uninhabited island of the same fertility of soil as Fertile Island,

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and which we will call Fertile Annex, he concluded to make that his home, and to try exchange with Fertile Island; but he found that with the same amount of labor he could obtain no more of either shelter or food by exchange with Fertile Island than he could obtain in production at home. Failing in this attempt, he resolved to work in agriculture, and to visit his old friends on Barren Island. Starting on his voyage at noon one day, having worked only six hours, and of course with only the product of three hours of food labor to take for exchange, he is amazed, on arriving at the Barren Island market, to find that his three hours' food labor is equal in quantity to six hours' food labor there, and therefore will exchange for six hours' shelter; that is, he has worked his standard up to six hours' daily labor to supply his needs. Nor does he quickly recover from this surprise, for he did not expect to profit by trade with Barren Island. He was now living in the more favored country, and Bastiat had taught him that it was the unfavored country that had most to gain by free

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exchange. He could not discover that Barren Island had gained anything by its transaction with him, and he had profited greatly; but looking over the book again he found that he had failed to note what Bastiat might plead to save his law—the admission that the immediate inhabitants of a favored country might profit by that circumstance before the arrival of competition.

You would have thought that this enterprising man would now be satisfied. Not he. Looking up through the strait that separated Barren and Fertile Islands, another large island might be seen that he was anxious to explore. The soil of this island was in every respect like that of Barren Island, but coal, one of the richest gifts that nature can bestow upon mankind, and which had been withheld from all the other members of our economic archipelago, was plentiful here, and we may appropriately christen it Fuel Island. This gratuity of nature made it possible for four hours' labor to produce as much shelter as six hours' labor would do elsewhere; and the standard of labor upon Fuel Isl-

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and was improved by this shelter gratuity in the same manner, though not to the same degree, as the standard was improved on Fertile Island by the gratuity in agriculture. And the inhabitants of this country, by working six hours a day in agriculture and four hours a day in shelter, making ten hours in all, could obtain the amount of both food and shelter that they required. It has been already demonstrated that in a single community exchange must be labor for labor, all gratuities being thrown in; and Fuel Island must conform to this law, and give the product of an hour's shelter labor for the product of an hour's food labor without regard to what that product may be.

Our old friend, leaving his home on Fertile Annex at eleven o'clock one morning, having labored only five hours, and consequently with only a product of two hours' food labor to bring to the Fuel Island market for exchange, having been schooled in surprises, is perhaps less astonished, but none the less gratified, to find that the product of his two hours' food labor is the same quantity as the product of four

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hours' food labor there; therefore it will exchange for the product of four hours' shelter labor. As this four hours' shelter product is equal to the product of six hours' shelter labor elsewhere, and is just the quantity he is accustomed to consume each day, he has, by this profit of exchange, raised his standard to five hours' daily work to supply his needs of both food and shelter. More puzzled than ever, this sagacious man, now under such easy conditions of life and with so much time at his disposal, decided that he could not better employ this abundant leisure than by the investigation of these curious phenomena of exchanges that had so greatly improved his standard of living.

"When I lived on Barren Annex, a desolate place incapable of supporting life, Barren Island exchanged with me labor for labor, and threw in the gratuity that land afforded, and I lived with the same amount of labor as they—twelve hours. Fertile Island exchanged with me on the same basis, and threw in the gratuity of its soil, which, being greater than that of Barren Island, enabled me to live with nine hours'

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labor, the same as they. Neither of these two people charged me anything for their gratuity, and made nothing by exchange with me. Living on Fertile Annex and trading with Barren Island, instead of having to throw in any gratuity with my labor, they paid me as much labor for my gratuity as it would cost them labor to obtain the equivalent of it at home; and as three hours of my labor gave me a gratuity equal to three hours of their labor, I profited this amount of labor by the transaction, and was enabled to live on six hours' work. In trading with Fuel Island they not only paid me for my food gratuity, but threw in their shelter gratuity, and thereby made it possible for me to live with only five hours' labor."

(We have not noticed transportation, as it is evident in each example which side must deduct that expense from the extreme advantage shown. Transportation must invariably be deducted from the profit of an advantage in exchange. This part of an advantage is always *lost* in exchange; it can neither be sold nor given away. The full profit of an advantage can only

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be obtained by consumption or use at the point of production. [It is true that this loss may be even more than compensated for, but, if so, it must be from the profit of some other advantage, and we must not allow the mind to be confused with the exchange of two advantages until we have mastered the principles of the exchange of one, which will be equally applicable to all of the same nature.] Therefore a part of an advantage equal to transportation will under any circumstances be maintained by the community possessing it. The extent of exchange of a commodity of advantage is limited to a cost of transportation not greater than the value of the advantage. When some portion of a commodity that is being exchanged elsewhere is being exchanged at the full extent of the advantage, then the whole advantage on that part is lost in transportation, and all the advantage on the remainder, that is being exchanged at less extent, that is not lost in transportation is given away in exchange, and the whole quantity of the commodity is being exchanged without any profit of its own advan-

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tage, and therefore must be exchanging for the profit of the advantage of some other. Although an advantage itself may be limited and determined by transportation, this element has nothing to do with the principles which we are seeking of the exchange of a determined advantage, and therefore we may leave it out of consideration.)

Every time this man embarked he took with him that commodity for exchange in which his labor had the greatest advantage of production, and returned with that commodity in which his labor had the least. Any advantage that one labor has over another in obtaining a commodity is, in effect, and may be called, the gratuity of that labor; and it matters not to what cause this advantage of obtaining is due. We have thus far used an uncapitalized gratuity of nature for an example of an advantage, because natural advantages are easier to perceive, are the most permanent, and are fixed, and what may be shown respecting the exchange of them before they become capitalized will be true of all advantages that are incapable of capitaliza-

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tion. The gratuity that the use of improved appliances would give to the labor of one community might be obtained by another community by making use of these appliances, whereas the gratuity of a coal-mine is limited to the mine itself.

There was no commodity that could not be both produced and obtained with the same amount of labor on both Fertile Annex and Fertile Island; therefore the labor of neither had any gratuity of which the other was not possessed (except the advantage of division of labor, which, obviously, we need not take into account here), neither had any advantage of production to give or sell the other. Consequently there could be no profitable exchange between them, and this accounts for our friend's failure there. In all the other islands he exchanged with there was one commodity or more that could not be obtained in both communities with the same amount of labor, and it is important to understand that it is the difference in the cost of labor to obtain (and

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not necessarily to produce) that makes possible any profitable exchange of labor.

If a gratuitous commodity can be exchanged on the basis of its value in another community —that is, for the same amount of labor that it would take to obtain it there—then the gratuitous country will reap the whole profit of the advantage. If this commodity must be exchanged on the basis of its value in the gratuitous country—that is, for the same amount of labor it required to obtain it there—then the other community will gain all the profit of the advantage. If it is exchanged on a basis of more labor than it takes to obtain it in the one, and less than in the other, then both will share in the profit of the advantage.

We still have unaccounted for the most curious fact that in every exchange the whole advantage was on the side of our economic hero. He managed invariably to obtain all the profits that the inequality of production of labor in his own and the country he exchanged with made possible. He always received payment for his

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gratuity, and in return gave nothing for theirs. What talisman did he possess? As we can discover only one point of difference in his favor, this circumstance must account for his invariable success: he had *no competition* in his enterprise.

He carried so little into a market alive with competition that he did not reduce the value of the commodity he brought, and he required so little that he did not increase the value of the commodity he took away. He represented a limited competition in exchange with an unlimited one. Suppose, when he went from Barren Annex to Fertile Island, that a whole army of Barren Island laborers, loaded with their shelter, had joined him and demanded that favorable exchange with Fertile Island food labor that he had enjoyed, would gratuity now be thrown in, or would some part or all—depending upon the number of this host and the size of the market—be paid for?

Consider his triumphant exchange from Fertile Annex with Barren Island. Had he arrived at that market with all the mass of Fertile

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Island food labor that great expectation could muster, would gratuity now be sold, or would some part or all—depending as before—be thrown in? If we have doubts as to whether the amount that each side will obtain of the profit of exchange of an advantage of production depends upon the proportionate competition, examples to follow will sweep them away.

Let us now, keeping in mind that our friend represents a nation, consider another important circumstance—namely, that of commodities capable of exchange between communities he must work exclusively in the one in which his labor has the greatest advantage of production, and could not work in one of less advantage and maintain the same profit of exchange and standard of living. This is important, and must determine the occupations of labor in a community that is freely exchanging elsewhere. It escapes attention because advantages of labor, as we have shown, are thrown in or equalized by exchange in every single community, and they have ceased to become advantages so far as any particular labor in that community is

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concerned. They are distributed to all the labor of the community, and until you can compare the advantage of labor in a certain commodity in one community with that of some other community the gratuity is not apparent. Fertile Island sees no gratuity in its soil until Barren Island is discovered. Then it becomes manifest in the increased value of their food, and food labor begins a profitable exchange with Barren Island shelter labor, and will no longer exchange with shelter labor at home except on the same favorable terms that it can do elsewhere.

What, now, will the shelter labor of Fertile Island do? Think you they will continue in shelter when they see this other field that they can enter with greater profit? No. They must rapidly change from shelter to food, and the last man in that community must abandon shelter if food labor continues to sell any gratuity. But what effect is this new exchange having upon Barren Island? The increasing supply of food reduces its value there, and makes shelter more profitable than food labor.

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Consequently labor in agriculture must shift to shelter, and the final outcome will depend upon the relative population or competition of these two communities.

If the population of Fertile Island be great, and they supply Barren Island with all the food it can consume, and still have not received in exchange all the shelter they require, making it necessary for some labor to continue the production of shelter on Fertile Island to supply the amount required, then the Fertile Island labor will deliver without charge, and Barren Island labor will receive without cost, all the gratuity.

For no laborer will produce shelter upon Fertile Island if he can obtain more shelter by working in food, and this he can do so long as food labor is exchanging with *any* profit (selling any gratuity) elsewhere.

If the population of Fertile Island is so small that all of its labor can be employed in food and still not be able to supply all the food that is required in both islands, making it necessary for some labor to continue the production of

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food on Barren Island to make up the amount required, then Barren Island labor will have to pay, and Fertile Island labor will receive full value, for the gratuity.

For no laborer will produce food upon Barren Island if he can obtain more food by working in shelter, and this he can do so long as shelter labor is exchanging with *any* profit (given any gratuity) elsewhere.

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## CHAPTER IV.

### MAINTAINING THE PROFIT OF EXCHANGE.

To elucidate this subject further let us now examine unrestricted exchange between Fertile Island, with a population of one thousand, all engaged in food labor, and Barren Island, with its labor engaged in both food and shelter. If our law is sound, with any labor employed in food upon Barren Island, Fertile Island must be selling all the gratuity of its labor, and these one thousand men must be working six hours, and exchanging three hours of food with one thousand Barren Island laborers for six hours of their shelter, making a total profit in exchange of three thousand hours' labor. Let us suppose the number engaged in food labor upon Barren Island to be twenty-five persons, ex-



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changing with twenty-five other shelter laborers there. This will make the population of Barren Island one thousand and fifty. With this balance of competition upon Barren Island, exchange must continue upon the basis shown, and Fertile Island must continue to maintain that high standard of living which we have shown it capable of when it received full value for gratuity. Under these circumstances Fertile Island may continue this free and unrestricted exchange, receiving all the profit it can obtain by any possible exchange with the labor of Barren Island. If Fertile Island should under these circumstances employ any part of its labor in shelter it is evident that this must reduce the total profit of exchange and the standard of its labor proportionately.

One hundred laborers now arrive upon Fertile Island. The arrival of competition need never be accounted for, and we will not inquire whence it came. Do you realize what this change in situation means to this fertile community? That small increase of population throws the balance of competition against them,

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and they have lost the power to sell any part of their gratuity. As Bastiat declared, they will now be forced by the added competition to give away their gratuity in exchange with the labor of Barren Island. Fifty of these strangers may begin the same favorable exchange with the fifty people on Barren Island who have not yet exchanged with Fertile Island. But the other fifty, what of them? Eleven hundred people now must clamor for the exchange of their daily production of food, for their daily consumption of shelter, in the Barren Island market, where there is a demand for food and supply of shelter for only one thousand and fifty. The impossible is being attempted. The pendulum has swung the other way. Some shelter now must be made on Fertile Island. The standard of labor must be reduced from six to nine hours' daily work on Fertile Island, and that of Barren Island must be improved in the same degree from twelve to nine, and they will no longer pay for gratuity. A lifetime of struggle against this inexorable law of competition may be profitlessly spent, but no other

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result can be obtained. (An increased production of food from any cause would have resulted the same, and prevented the exchange of food with any profit of labor.)

Let us consider now if by any restrictive measure this catastrophe to Fertile Island labor might have been avoided. Suppose the one thousand laborers of Fertile Island, realizing the inevitable fate that the law of competition threatened, should combine to defeat the operation of this law. When you have a combination that includes your whole population (and nothing short of this will be of any service here) you have a government. Suppose the government — realizing that individual interest would force these new laborers into agriculture, the most profitable occupation in this country, and cause the loss of three thousand hours' profit in labor that Barren Island was now paying them — should decide to make some arrangement with these men whereby they could work in shelter and still be provided with both food and shelter at the same cost of labor as others, and maintain the same standard of living that

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the rest of the community could do. This can be accomplished only by sharing with shelter labor the profit of the exchange of food elsewhere; and if the government offered one hundred laborers a bounty of three hours' food labor to equalize the advantages of the two occupations and induce them to work in shelter, it would save to this community the three thousand hours' profit of labor that the competition of this additional labor in agriculture would otherwise deprive them of, by forcing them to give to Barren Island all the gratuity that they had been accustomed to sell it. This bounty equalizes the advantages of these two occupations by division of the profit of the greater with the less advantageous one, but does not reduce the profit of the exchange of the greater one at all; therefore is not a cost to be deducted from it. The total amount of profit of exchange remains exactly the same, but it now must be divided with a greater number. This community had reached the limit (less the small margin allowed) in the amount of profit to be obtained by the sale of its advantage of production before

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these strangers arrived, and the reduced standard of labor which this bounty represents must be charged to a greater population than can all be employed in the occupation of greatest advantage and exchange with the greatest profit elsewhere.

If the value of an advantage should be maintained at a point which prevented its sale or exchange at all elsewhere, the profit of it to a community would be no greater than though it was not maintained at all. The profit of an advantage depends upon the exchange of it, and also upon the limitation of that exchange. There is a point or percentage of profit at which the value of a commodity (of advantage) may be maintained that will bring to a community the greatest total profit that can be obtained by its exchange elsewhere. If maintained above this point, the loss by reduced sale would be greater than the profit of increased percentage. If maintained below this point, the loss by reduced percentage would be greater than the profit by increased sale. This point determines the real advantage. In our

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examples this point of real advantage only is represented. If we should employ examples in which a reduction in the percentage of profit would be followed by a demand for a greater quantity of the commodity than could be exchanged at a greater percentage, then the point of real advantage would have to be determined, and it would be found to lie somewhere between the greatest percentage of profit for a limited quantity and no profit at all for an unlimited quantity, according to the circumstances.

Fertile Island labor requires a bounty to induce it to engage in shelter, not because the occupation is less profitable than the same occupation upon Barren Island, but because it is less profitable than another occupation in the same community. If labor in this community should have an advantage in shelter, as compared with Barren Island, half as great as its advantages in food, it would still require a bounty to induce it to keep out of agriculture and to engage in shelter, equal to the difference in the advantages of the occupations. Otherwise it could obtain more shelter by working in

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food and exchanging that food with Barren Island labor for shelter, notwithstanding its own great advantage in shelter. An occupation in a community may be one of great advantage as compared with the same occupation in other communities and still cannot be taken up until the profit has been equalized to the profit of some greater advantage in the same community, either by bounty to the lesser advantage, or by a reduction in the profit of exchange of the greater, or by capitalization.

It should be noticed that maintaining the value of food does not increase its cost to shelter labor, as they will obtain it in every case at the *same cost of labor* as the particular labor engaged in it. Therefore maintaining the value or price of a commodity in which labor has an advantage of production, in order to sell it with greater profit elsewhere, cannot be made to increase its cost to other labor in the same community, for unless they receive an equivalent, that price cannot be maintained.

The division or equalization of profit by means of bounty presents curious phenomena.

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Suppose a community of ten, with one laborer only, to be exchanging with profit elsewhere, and to be maintaining and dividing, by the bounty system, the three hours' profit of his advantage with nine other laborers there. To equalize occupations the nine must be paid a bounty of three hours each, or twenty-seven hours in all, and this bounty must be collected from the whole community of ten, each paying a tax of two and seven-tenths hours. These ten men have improved their standard equally by this profit of exchange, but only the one tenth of three hours' labor that has been divided among them. Twenty-seven hours of bounty have been given, but only two and seven-tenths hours have been actually paid or received. The one laborer received (in exchange elsewhere) as part of his wages three hours' profit of labor, and each of the nine three hours' bounty, but they were all forced to return nine tenths of all they received by taxation. The actual wages of labor in a community that is giving bounty (directly or by import-tax system) to equalize the profits of labor in different occupations, in

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order to maintain the profit of some greater advantage in exchange elsewhere, cannot be determined by the wages received, for there must be deducted its share of taxation that the bounty represents.

With labor free to shift occupations, bounty can only be made to equalize the profits of labor in different occupations in the same community. If a bounty is inadequate, the occupation will not be taken up. If too great, the surplus would give to the occupation an advantage, and as an advantage cannot be maintained by the particular labor engaged in it, the surplus must be given away in exchange. (If given in a limited occupation capable of capitalization, then it will pay for any increased rent that it may cause.) But it must not be thought on this account that bounty may not, by the distribution of labor, reduce the profit of exchange elsewhere, for it may induce too much labor from the most profitable occupations, and direct it into less profitable ones than necessary, and even into occupations of great loss, and, worst of all, into limited occupations

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capable of capitalization. Bounty must be employed to distribute labor into occupations of greatest advantage consistent with maintaining the full profit of those occupations, in order to exchange with the greatest profit elsewhere.

Adam Smith said, "The interest of a nation, like that of a merchant, is to buy as cheap and sell as dear as possible," and Fertile Island is obliged to maintain the value of the commodity in which its labor has an advantage of production in order to continue the sale of it at a high price elsewhere. It would be expected by one indoctrinated with the broad conclusions of the economists that maintaining the value of this commodity must be attended with a loss that will neutralize the profit of exchange gained by it; but it is evident that this loss can come to Fertile Island only by increasing the value of commodities it must purchase elsewhere, and it is obvious that the production of shelter upon Fertile Island will not increase the demand for nor reduce the supply of shelter upon Barren Island; therefore it cannot increase the value of it. So that this means of control-

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ling the occupations of labor, employed by a nation to maintain the value of a commodity (in which its labor has an advantage) that it is selling, does not operate to increase the value of other commodities that it is buying.

It is very important to know and define the exact nature of this transaction of equalizing the profits of labor in different occupations, which has so generally been misunderstood. This bounty is not offered for the benefit of a few shelter laborers. It is given to protect food labor from the great loss that the competition of this added labor would bring to it by increasing the quantity and reducing the value and profit of exchange of their product. This bounty is offered for the purpose of protecting or maintaining the value of that commodity in which the labor of this community has an advantage of production, in order that they may continue to exchange this commodity most profitably elsewhere. To maintain the value of commodities in which the labor of a country has advantages of production, to enable it to exchange these commodities with greatest profit else-

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where, is the purpose, end, and definition of the true protective principle. And all restrictive measures that contribute to this end are simply means, and those that effect the most productive distribution of labor consistent with maintaining the greatest profit of exchange are the best means.

It seems almost incredible that the true protective principle should have escaped the notice of both its advocates and the economists. We find their attention always directed to the means of protection, and that of the economists naturally to the most wasteful means. That they have not considered the protection itself, that is, the principle of maintaining the value of commodities in which a nation had its advantages of production, may be illustrated by the following definition of protection by Professor Rogers in the "Britannica," vol. ix.:

"A protective system, then, is inevitably concerned with such products as are liable to foreign rivalry, and a foreign rivalry can only be defeated at the cost of the consumer. But as the protective regulation can affect prices in that

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country only which imposes the regulation, it is obvious that the only person who can be made to bear the increased cost which the protective restraint imposes will be the home consumer."

A true protective system, instead of being "inevitably concerned with such products as are liable to foreign rivalry," is not concerned with those products at all, but is concerned only with products that are being exported, and that may have home rivalry sufficient to reduce their value so that they cannot be exchanged with the greatest profit elsewhere. Instead of a protective regulation being unable to affect prices except in that country which imposes it, the only object and purpose of a true protective regulation is to maintain the value of such commodities as it is selling to other communities. And instead of being obvious that the only person who can be made to bear the increased cost which the protective restraint imposes will be the home consumer, the only advantage that can be gained by a nation in protecting the value of a commodity is in order that it may exchange or sell to a foreign con-

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sumer at a higher price than it otherwise would be enabled to do.

It is true that under the import-tax system the value of some commodities is protected to furnish bounty to labor in order to keep it out of other commodities that are being exported, the value of which only it is desired to protect; but this first miscalled protection is only incidental, and simply a means for keeping labor employed, and other means—as a direct bounty, that would not protect their value,—could be just as well employed to induce labor to enter those commodities. This incidental protection, which represents only the bounty that labor must be paid to induce it to engage in these occupations, has so occupied the attention of the economists that they have overlooked the real protection that these means afford to the value of other commodities that are being exchanged with great profit elsewhere. And these investigators appear to have supposed that they had demonstrated the absurdity of all protection, even while the principle of protection itself, concealed by the means, eluded them altogether.

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We have already shown that in a single community the profit of an advantage of production cannot all be appropriated by the particular labor engaged in it, but that it must be given away in exchange and equally shared with all labor there; and so it must be with the profit derived from the sale or exchange of this advantage with other communities.

No laborers upon Fertile Island can be induced to engage in an occupation that is unable to exchange its products as favorably as some other occupation into which they can enter, without being paid the equivalent to the advantage that the occupation they are asked to keep out of has over the one that they must engage in; and Fertile Island, to limit the amount of competition in a gratuitous commodity in order to continue its exchange with the greatest profit elsewhere, must contribute an equal share of that profit to the labor that assists it in maintaining this profit and yet can obtain no share of it otherwise. Food labor must consent to a tax for the division of the profit of its advantage with shelter labor, in order to

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prevent being taxed for the whole by its competition. Or, putting it in another form, so as to make clear this disputed point as to who pays the tax, it has consented to give up a part of the tax or profit that the labor of the unfavored community is paying it, in order that it may still be enabled to collect this tax or profit.

It should be kept in mind that this transaction is capable of great wastefulness of labor. A community must understand that the object desired is not to make any of its labor unproductive or to produce scarcity, but to maintain the greatest profit of exchange and thereby make all of its labor more remunerative. If any part of its labor should be given a bounty to induce—and that would enable—it to produce, for instance, pineapples in a country unfavorable to their production it would reduce its profit of exchange in pineapples (as will be shown), and it would be equivalent to the waste of some part of its labor; but if it is employed in occupations of less, and down to those of equal, advantage, and not induced into occupations of

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disadvantage, there will be no waste of labor to this community: for it would take a greater amount of labor in the occupations of less advantage, and the same amount in occupations of equal advantage, to obtain the same quantity of the same commodities elsewhere. This is one of the important limitations of a protective principle. When a nation artificially causes the production of a commodity that may be obtained with less labor in production elsewhere, then it may be refusing the gratuities of some other country, which is a policy as fatal as it is to give away its own.

It may then be making a ridiculous attempt to levy a tax upon another community that it cannot collect, and consequently must pay itself, and this is the sort of tax that economists have demonstrated to be uncollectable, and from which they have generalized the law that no country can make another pay a tax — an error that all are liable to fall into of making a law broader than it has been established.

A nation must not determine whether it has an advantage or disadvantage of production in

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a commodity by comparing the value of that commodity with its value elsewhere. Barren Island and Fertile Island have equal advantages of production in shelter. If Fertile Island should increase its value in that community by an import tax, in order to induce labor to enter that occupation, it would not make of it a commodity of disadvantage. It would still remain one of equal advantage. The cost of labor to obtain a commodity (in production) in the community must determine whether it is one in which the community has an advantage or a disadvantage.

Inadvertently we have permitted an unsupported opinion to assert itself, and as this was no part of our plan we must illustrate what we meant by refusing the gratuity of another country. You remember we left the laborers of Fuel Island industriously working six hours daily to obtain food, and, with the gratuity of coal to assist them, four hours' additional labor only was required to produce their shelter; so their standard was ten hours' daily labor. The standard of Barren Island, as we all remember,

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is twelve hours—six hours' food labor and six hours' shelter labor. A laborer on Fuel Island, by working eight hours in shelter, could obtain what he consumed of shelter and have the product of four hours' shelter labor to take to the Barren Island market. As this quantity was just equal to six hours' shelter there, it would exchange for six hours' food labor and give him the food he needed; so the standard of Fuel Island, when selling its gratuity, was eight hours, and the first to arrive at the Barren Island market could exchange on this basis.

Unfortunately, however, for the Fuel Island labor, they had a balance of population or competition as compared with Barren Island, just as, in our previous example, Fertile Island had after the arrival of the strangers; and the great number of shelter laborers that must now press on to the Barren Island market for this favorable exchange with food labor there will decrease the value of shelter and make food labor there more profitable than shelter, and all gratuity must soon be thrown in, in exchange with the Barren Island food labor, and improve the

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standard of that labor. Owing to this distribution of population or competition, Barren Island is about to receive without cost all the gratuity that Fuel Island can provide, by which its standard of living will be raised to ten hours—the highest that the most productive labor in both countries can maintain. The shelter laborers of Barren Island may not be able to appreciate or understand that this great advantage must come to them, and may be forgiven if they, seeing the value of shelter decline, are blind to the good fortune that awaits them in agriculture, and they may demand that some protection be furnished to their declining shelter industry. We refuse to assist them in this self-destruction. If they insist upon trying some system to keep labor employed in shelter upon Barren Island, when Fuel Island is offering them all the gratuity of its shelter labor free, then the measure of their own injury will depend upon the degree of the success of their system. This Barren Island shelter labor may appeal to the government, and say that Fertile Island protected shelter labor with great suc-

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cess, and a policy that benefited them must benefit Barren Island. The hard conditions of life upon Barren Island must make the government keen to see opportunities of advantage, and they would reply to the petition of their misguided shelter labor that Fertile Island gave a bounty to shelter labor as a means for maintaining or protecting the value of their gratuity so that they might continue selling it to Barren Island, and had they not been successful in that policy the people of Barren Island would be receiving it free now. But how different is the condition of Barren Island! No labor on this island has any gratuity to sell or give away, and this island can make no use of a policy to help it sell or to prevent its giving away something it does not possess; and if it hopes to profit it must devise a policy adapted to the situation. It may, under certain conditions, profitably exchange its labor with the labor of some more favored community that may be forced by the competition of its own labor to give away its gratuity, and Fuel Island is now offering this opportunity, which must

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not be refused. It is to be regretted that Barren Island must abandon its cherished shelter labor, but it regrets it the less as food labor now will so greatly improve its standard of living, provided it will accept the gift of that gratuity which Fuel Island offers.

The people of these islands have been so loyal, and have so heroically withstood all temptation to move while undergoing the painful operations to which they have been subjected, that it would be unfair to leave them without a Utopia to which they may retire when we no longer have occasion for their service, and we cannot properly leave this subject without the examination of exchange between these islands and a country with the combined advantages of the others, and more like the one we live in. Not far away may be found this most favored country, possessing the rich gratuities of both Fertile and Fuel Islands. But notwithstanding the combination of advantages which would permit it to maintain independently the highest standard of all, it cannot by exchange attain a higher standard than Fertile

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Island, because the principal gratuity of both is the same, and the highest standard has already been shown to be obtainable only by exclusive employment in the occupation of greatest advantage.

Let us now suppose this country to be threatened with an unlimited competition; that is, placed in exactly the same situation that Fertile Island was in when the one hundred laborers arrived. Fertile Island was obliged to pay that extra labor a bounty of three hours to induce it to engage in shelter, because labor there must work six hours in production to obtain the same amount of shelter that it could obtain by exchange for three hours' labor; but here labor can obtain in production the same amount of shelter with four hours' labor that three hours' labor in exchange would do, and therefore shelter labor requires to be provided with only one hour's labor or bounty to bring its standard up to that of food labor. And this shelter gratuity, which at first, under a limited competition, appeared so useless to this community, when increased population came, which

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threatened them with the loss of power to continue the sale of their principal gratuity, became very important.

And the two examples demonstrate that a government can most economically administer a restrictive policy by employing the labor that it desires to keep out of a principal gratuity first in the next less one, and so on, as necessity may compel; and the employment of this labor in the less gratuities is not only the most economical employment of labor for this country, but is an actual saving in the amount of labor it would require to produce the same amount of these commodities elsewhere. The government of a favored country, with instincts of protection and without full comprehension of this principle, may throw away in wasteful protection a large part of the gratuity it saves by limiting competition.

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## CHAPTER V.

### VARIOUS SYSTEMS THAT DISTRIBUTE AND EQUALIZE THE PROFITS OF LABOR.

WE have found that it is the distribution of labor into occupations of greatest advantage consistent with maintaining the greatest total profit of them in exchange elsewhere that will give to all labor of a country the greatest amount of commodities for a given amount of labor, and it is evident that any system that a government may adopt that will distribute the labor of a community as effectively as we have shown the bounty system to be capable of may be employed for the purpose of protecting the value of gratuitous commodities. That an import tax, as, for example, upon shelter on Fertile Island, will maintain labor in that occupa-



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tion is too plain to require illustration. Under this system the government increases the value of the commodity which it desires labor to be employed in, so that the profit of labor in its production will be equal to its profit in the commodities that it is desired it shall keep out of. Under the bounty system the government taxes the whole community to the amount of the gratuity that some part of its labor must sacrifice by doing the labor it is asked to perform, and pays it to it. An export tax upon the gratuitous commodities may be employed to accomplish the same result. By this system all labor is deprived of any chance of sale of gratuities abroad, and then it will exchange labor for labor at home, and no labor needs bounty or other protection.

All three systems may be employed to distribute labor and to equalize the profits of different occupations. But the import system is limited, and cannot be made to equalize the advantages of labor in different commodities that are being exported, which is not only very important, but absolutely necessary, to do, in

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order to maintain the full value of and to exchange elsewhere two or more advantages that differ in degree or percentage of profit. In order to reap all the profit that may be obtained by exchange elsewhere, a nation must direct its labor from the occupation of greatest percentage of advantage, before that occupation has lost a part of that advantage, into the next less one, and this occupation must reap the profit of its advantage in *exchange elsewhere* before the third is entered, and so on down. But under the import system all the percentage of advantage that labor in one occupation has over its advantage in the next less one must be given away in exchange or capitalized before the less one can be exported at all; for under this system equal taxation falls upon all commodities that are being exported, and taxation cannot be made to correspond to and equalize the profit of different occupations in exchange elsewhere (an export tax or a bounty upon exports is necessary to accomplish that), and labor must begin in the occupation of greatest advantage, and cannot take up the next less until all the

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advantage that the first has over it has either been given away in exchange or been capitalized. So that a nation employing the import tax only for the distribution of its labor must be giving away in exchange all the advantage that its labor may possess in any of the various commodities that it is exporting that is greater than its advantage in that commodity that it is exporting in which its labor has the least advantage of production, and also it must be sacrificing all the profit that it might obtain by the exchange elsewhere of all commodities in which its labor has a less percentage of advantage than the profit of labor in those commodities that are being exported.

To illustrate: suppose it should be discovered that the sand upon the shores of Long Island possessed a fertilizing quality equal to the phosphates of other regions that cost twenty dollars a ton to prepare for the market. We should now become possessed of a new gratuity in which labor would have a great advantage of production. Owing to the unlimited quantity, and to the public right to take it, competition

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must quickly reduce the price of this commodity to the amount in wages it cost to handle it. This gratuity would improve the standard of living in this country, because the same quantity of commodities that we were accustomed to have could now be obtained with a less amount of labor. It would also improve the standard of other countries equally (less that comparatively small percentage of advantage, represented by higher wages, that our labor possessed in the exchange of other commodities that it exported), because all of the value of this commodity above wages paid must be given away in exchange elsewhere. Suppose the cost or wages paid for handling to be five dollars per ton, and the price at which the greatest amount of profit could be derived from its sale elsewhere to be fifteen dollars: it is evident that no import tax could be made to limit the production of this commodity to that quantity that would maintain this higher price or advantage; so that the advantage of ten dollars per ton that labor had in this occupation greater than in other occupations must

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under this system be given away in exchange elsewhere. To maintain the value of this commodity under the bounty system, the profits of all other occupations of labor in this community would have to be equalized to this most profitable one; wages would have to be trebled, and taxation increased, to correspond to the bounty paid: but if our government should place an export tax of ten dollars a ton upon this new fertilizer, its value would then be maintained, and the foreigner would pay for this gratuity, which would be still given away at home, and the standard of this country would be still further improved by the profit from its sale. The export tax upon gratuitous commodities has simplicity to recommend it, and the tax comes directly to the commodities that must supply the means to pay it under any system.

Had this in many respects the most perfect of all systems of protection (because it falls directly upon the commodities in which the labor of a nation has its advantages of production, and by giving to each a suitable tax will limit the production and maintain the value of

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these commodities to just that point that they will exchange with greatest profit elsewhere) been universally employed, perhaps the confusion that has clouded this subject would never have existed. Although the export tax may be employed in a way to reduce the profit of exchange, yet under this system no wasteful protection—that is, protection of commodities in which labor would have disadvantages in production—is likely to take place. Labor will not voluntarily take up occupations of disadvantage so long as it can employ itself in those of equal or greater advantage and exchange for the commodities in which it has disadvantages. Had the labor of England been directed by this system of protection it would not have required the services of the economist to relieve it from the weight of its wasteful protective policy.

Under the export system of protection each commodity of advantage can have a tax to correspond with the amount of advantage. The foreigner would pay the laborer for his labor and the government for the advantage. With

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labor in an occupation receiving full wages as compared with other labor in the community, and the government demanding what it considered labor's advantage in the occupation, if then the foreigner refused the commodity at the price, the government could be certain that it had overestimated the advantage and must reduce the tax. The amount of export tax that will produce the greatest revenue accurately measures the greatest profit a country can obtain by the sale of its advantages.

One might inquire how labor in a favored country under the export-tax system could maintain a higher standard than the labor of other less favored countries, and could still produce and sell commodities of equal advantage at the same price as the foreigner, which in open competition, having no import duties, it must do. The cost of living would be less; all this gratuity that outsiders were obliged to pay for would be thrown in to all labor at home. The price of all commodities in a community under this system would be as cheap as home and foreign competition could make it, and

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all the commodities in which labor had an advantage would be cheaper than elsewhere. Labor would pay nothing for these advantages that it consumed, but the people of other countries would be obliged to do so. This, then, is a policy of production as cheap as nature and labor combined will permit, all labor giving away in exchange at home all its advantages, with the power of the government to prevent giving them away in exchange elsewhere.

Under the import and bounty systems the wages of labor appear to be greater than they are. Under the export system the wages of labor are greater than they appear to be.

Every country selling gratuity, when it finds its population increased to that point where it must give a bounty to some labor in order to maintain the profit of exchange and the wages of all labor, must make the purpose clear to all labor, or contentions must ever continue. Friends and foes of protection alike have mistaken the means for the end. The labor that receives the bounty naturally appears to be the object of protection; but when it is understood

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that labor receives this bounty simply to induce it to keep out of another occupation that is exchanging its products with great profit elsewhere, then it becomes clear that the first protected labor is only a means for securing the most profitable exchange for all labor. Bounty given to any particular labor simply for its own advantage, or that does not improve the standard of all labor, or given in occupations of disadvantage, or given when the greatest profit of exchange would be maintained without it, is indefensible, and, instead of improving the standard of labor, must reduce it. Nations, having misunderstood the true principle of protection, and having mistaken the means for the end, have adopted such wasteful and unnecessary restrictions that it is not surprising that the economists have not observed and separated the true from the false, and have meted out to both the most sweeping condemnation.

It is always apparent to each individual in a community that is giving bounty to some labor to maintain the profit of exchange for the advantage of all that he alone could make more

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profitable exchange elsewhere than at home, just exactly as our trading hero could when he went alone among the islands that he visited; but it is more difficult for him to see that if all the rest of the community were permitted to go with him this same favorable exchange could not be made. The tax is always before the eyes of the one who must pay it, but the profit of gratuity is not so apparent. The price of his commodity appears to him to be only the payment for labor. How frequently do you hear labor in gratuitous commodities lament that it has to sell in competition with the world and to buy in a restricted market! It is difficult for one to understand that the quantity that is taken into that market of the world determines the price that will be paid for it, and that if other labor at home were not kept employed by his patronage it must enter his occupation, increase the quantity of the commodity he is producing, take it with him to that same market where he is selling, and reduce the price, and that both would now have to buy in

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that market, and perhaps increase the price of commodities that they must purchase.

The value of a commodity in a given market depends upon the whole quantity brought to it, and the price can be maintained at the cost of bringing it there by the least favored producer only just so long as the more favored producers do not bring a greater quantity than the market will consume at that price. Any greater quantity must reduce this price, and the favored producer must begin to give away gratuity.

And a nation selling its gratuities must not fall into the prevailing error that cheap labor of itself gives an advantage of production to a community, and that all the products of cheap labor must or are likely to be gratuitous ones which should not be refused. We have described a gratuity of labor to be an advantage of production, and this advantage is what makes dear labor. Cheap labor has fewer advantages of production, and this is precisely why it is cheap labor. It may have escaped notice that in all these examples of exchange we have dear

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labor on one side and cheap labor on the other. Fertile Island labor is dear and Barren Island labor cheap. Barren Island labor will work twelve hours for the same wages that Fertile Island will demand for nine. It is true that a country with cheap labor may have a commodity in which it has an advantage of production, and this commodity would be a gratuitous one, and the labor of that country is dearer than it would be otherwise; and the labor of other countries should not refuse these gratuities of labor whenever they are offered. On the other hand, a nation must not fall into the contrasting but equal error that the competition of cheap labor of other communities is something to be dreaded, and that it is the products of cheap labor that the labor of a more favored country requires to be protected against.

To demonstrate the error of both of these positions, let us for a moment increase the population and competition, and capitalize or give value to the land of Barren Island. Labor here becomes cheaper still. Suppose the rent of that land to be three hours' labor. A laborer

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must now work six hours daily to obtain shelter, six hours for his food, and three hours to pay rent, making fifteen hours to obtain the same commodities that he formerly received for twelve hours' labor. This is equivalent to impoverishing the soil to that extent, so far as Barren Island labor is concerned; but this cheapening of the labor of Barren Island, instead of giving to that community an advantage of production, makes the advantage of Fertile Island labor over that of Barren Island so much greater than before that Fertile Island labor can now sell its gratuity to this cheaper labor at a higher price. For example, the product of one hour's food labor on Fertile Island is now equal to the quantity that it will require three hours of labor on Barren Island to obtain; so that a man who works five hours on Fertile Island, and takes his two hours' food surplus to Barren Island market, will find these two hours' food equal in quantity to six hours of Barren Island food labor, and therefore will exchange for six hours' shelter labor there. Thus Fertile Island, with a limited competition, can now live with

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five hours' labor by the increased profit of exchange with this very cheap labor. Fertile Island has everything to gain and nothing to lose by the competition of this cheap labor. Increased population and competition upon Barren Island can only increase Fertile Island's advantage, and Fertile Island has only to fear increased population and the *competition of its own labor* for the profit of that advantage. Fertile Island labor must exchange with the cheap labor of Barren Island to the limit of maintaining the profit of its advantage. If it is permitted to do more, it will raise the standard of that cheap labor and reduce its own.

If two commodities, say brushes and brooms (equal quantities being consumed), were of unequal advantage compared with other commodities of shelter, and Fertile Island should have fifty percent. advantage in brushes, and Barren Island an equal advantage in brooms, this circumstance would not alter our example in the least until Fertile Island is made too populous to permit all of its labor to exchange food with the greatest profit elsewhere; but when

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on this account Fertile Island must limit the exchange of food (at one hundred percent. advantage) in order to maintain the value and profit of it, this advantage in brushes and disadvantage in brooms would become important factors in determining the means of limitation that it should adopt. Of necessity it must now refuse some product of Barren Island's cheap labor in order to give employment to its own surplus labor, which must be kept out of food. To equalize the profit of different occupations, some one of which this surplus labor must now be induced to enter, it would require fifty percent. in brushes, one hundred percent. in shelter (from which we will now exclude brushes and brooms), and one hundred and fifty percent. in brooms.

If a bounty of fifty percent.* is given to enter brushes, the occupation can be taken up, and with a greater surplus of labor than it requires to make the brushes that are needed at home a

* That is, equal to fifty percent. of the profit of exchange of food labor. Bounties and taxes will be calculated in the value of labor in the production of shelter.

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profitable exchange with Barren Island shelter labor may begin, exchanging brushes for shelter; Fertile Island labor can obtain fifty per-cent. more shelter by working in brushes and exchanging for shelter.

When the limit of profit of exchange in brushes is reached, one hundred percent. bounty must be paid to induce labor to begin in shelter, and all surplus labor must be employed in these occupations of equal advantage, that is, advantage equal to the advantage of communities most favored in the occupation. Bounty need go no further, for Fertile Island labor will not buy brooms (a commodity of disadvantage) elsewhere unless at a less cost of labor than it costs labor to obtain them at home, and the only chance of obtaining any part of the profit of Barren Island's advantage in brooms is by exchange with it. All commodities of disadvantage desired by this community that have not already been obtained by the exchange of food and brushes elsewhere must now be obtained by the exchange of shelter.

It might occur to one that increasing the ex-

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change of shelter elsewhere might reduce its value, and that the loss to the community would be as great as increasing the exchange of food or brushes would do; but the value of shelter cannot be reduced (and maintained below the cost of labor to obtain it in production elsewhere so long as that production is continued at all elsewhere), as it is already at the cost of labor of obtaining it in the favored community. The value of food may be reduced nearly one half, and brushes nearly one third, and still there will be a profit of labor in both of these commodities, because their price will still be above the cost of labor to obtain them in the favored community; but the value of shelter cannot be reduced at all without bringing it below the cost of labor to obtain it in the favored community.

If a commodity of equal advantage be one in which rent is a component part of value, increasing its exchange elsewhere will increase the cost of labor to obtain it at home, and reduce the cost of labor to obtain it in production elsewhere; but this would make of it a

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commodity of disadvantage, which would exclude it from our commodities of shelter.

The value of a commodity cannot be maintained above the cost of labor to obtain it in the unfavored, or below the cost of labor to obtain it in the favored, community.

If a community is so limited in variety of production that it cannot find occupations of less and not below equal advantage in which to employ its surplus labor, it must then of necessity enter occupations of disadvantage, or must employ more labor in occupations of advantage than it is possible to do without reducing the profit of them, the doing either of which must reduce its profit of exchange and standard of living.

It is evident that an export tax of one hundred percent. upon food and fifty percent. upon brushes would accomplish the same distribution of labor we have just described, and with the same profitable result. Being, however, subjects of the import system, we are more interested to know its capabilities. An import tax of fifty percent. on brushes will induce labor to

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produce the brushes required at home, for other labor in this community must then pay fifty percent. bounty to brush labor in the price of their brushes; but brush labor could not collect any bounty in the price at which it must sell brushes elsewhere, and the profit of food in exchange elsewhere would be fifty percent. greater than brushes, so that brushes cannot be exported from this community and the profit of that advantage obtained until the profit of labor in food is reduced to its profit in brushes. The profit of exchange of this advantage in brushes cannot be secured under the import system until the excess profit of food has been given away in exchange or capitalized.

Therefore more labor than otherwise must be directed into shelter—an occupation without profit and which will require an import tax of one hundred percent. to induce labor to enter it—and it is evident no shelter can be exported until both food and brushes are exchanging without profit elsewhere. So that if this community should desire more brooms (commodities of disadvantage) than it can obtain by the

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exchange of food elsewhere at the full profit of that advantage, it has only the choice between giving up a part of that advantage and placing a duty upon brooms of one hundred and fifty percent. and producing them at home at a loss; a choice only between surrendering a part of its profit of exchange of food or of brooms.

Of the one hundred and fifty percent. that must be added to the value of brooms in order to induce labor into that occupation of disadvantage, one hundred percent. is necessary to divide the profit of food with broom labor, but the fifty percent. is required to divide the loss of that labor with all other labor there.

Under this system a community cannot export a commodity of less profit until the profit of labor in every other commodity of greater profit has been reduced to its level. Consequently it can derive no profit from the exchange of its less advantages so long as a considerable part of the profit of greater ones is being maintained, and increasing population must be forced into occupations of disadvantage in order to maintain this considerable part

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of the greater ones. The error of a community is great when it refuses to sell brushes at a profit, and insists upon making brooms at a loss. When the import tax is employed it must be supplemented with a bounty upon exports that will equalize the profits of labor in exportation of all commodities of advantage, in order to make it possible to exchange all the advantages of a community with the greatest profit elsewhere.

It is plain that a bounty upon brushes and shelter would induce exportation and overcome the present difficulty, and it must be kept in mind that a bounty (unless given before the limit of profit in occupations of greater advantage has been reached, or given in an occupation of disadvantage) does not represent a cost to be deducted from the profit of exchange, but simply represents the difference in the profits of two occupations, and is only a means for the division of the greater profit. The profit to this community by the exchange of brushes is fifty percent., notwithstanding brush labor is paid a bounty of fifty percent. to make the

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profit of labor in brushes equal to the profit of labor in food. Shelter must be paid one hundred percent., because the profit of food is that much greater, and when it becomes necessary to employ labor in it this bounty will not reduce the profit of exchange. The payment of any greater bounty, as the one hundred and fifty percent. necessary to induce labor to take up brooms, is quite another matter. Fertile Island labor can obtain fifty percent. more brooms by working in shelter and exchanging for brooms, and that part that it might obtain of the profit of exchange of Barren Island's advantage in brooms, it must lose by refusing to exchange for them; therefore this occupation of disadvantage cannot be carried on in this community without loss. As this loss would otherwise fall upon the labor engaged in their manufacture, it must be paid a bounty of fifty percent. to cover that loss. Labor in brooms must receive a bounty of one hundred percent. in order to share the profit of food, and an additional bounty of fifty percent. in order that other labor may be made to share its loss in

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brooms. Bounty may, but never should, be given that will reduce the profit of exchange.

From this and previous examples it must now be plain that the greatest amount of labor should be employed in occupations of greatest advantage, and be enabled to *exchange elsewhere*, consistent with maintaining the greatest profit of these occupations.

Having shown upon what circumstances depended the greatest profit to Fertile Island in the exchange of its advantage of production, representing Barren Island passively submitting to the unlimited competition of its own labor for the profit of that same advantage, we must now consider what effect Barren Island's resistance to the restrictive policy of Fertile Island might have upon the division of the profit of that advantage; that is, the effect of limiting the competition of the labor of Barren Island for the profit of Fertile Island's advantage.

We have defined protection to be "the protection of the value of commodities in which labor has advantages of production in order to exchange these commodities most profitably

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elsewhere." This exchange is commonly divided into two separate ones: the *sale* or exchange of these commodities for a medium of exchange, and the *purchase* or exchange of this medium for other commodities. The sale and purchase may be independent of each other as to time and place, and protection relates to, and its definition might be more properly limited to, the *sale* of these commodities with the greatest profit elsewhere. Another class of restrictions may be employed (but with less chance of success, as will be shown) for depressing the value of commodities that a nation desires to purchase elsewhere. This policy should have a name (other than protection, which is a misnomer), and might properly be called *depression*, and it should be considered independently in order to determine its value. As it must be admitted that a nation cannot maintain (above the cost of labor to obtain it in production in the unfavored community) the value of a commodity in which its labor has no advantage of production, and continue to sell it, also that it cannot depress (below the cost of labor to obtain it in

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production in the favored community) the value of a commodity in another community in which that community has no advantage of production, and continue to purchase it, we have only to consider the depression of those commodities in which another community has advantages of production in order to obtain a greater share of the profit of exchange of them or in order to purchase cheaply elsewhere.

In our former example of free exchange between Fertile Island and Barren Island, owing to the balance of competition upon Barren Island, the one thousand food laborers of Fertile Island (before the strangers arrived) could exchange with Barren Island shelter labor with the full profit of their advantage of production. Suppose under these circumstances that Barren Island should induce one hundred shelter laborers to enter agriculture. This increase in the production of food would reduce the value of it upon Fertile Island as effectually as increased production at home would do, and then shelter must be produced and gratuity given away as before. By this restrictive measure

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Barren Island would force upon Fertile Island an unlimited competition, and thereby obtain the full profit of exchange of Fertile Island's advantage of production. From this and our former example alone it would appear that a nation in exchange with another that had an advantage of production might have an equal chance with the possessor of obtaining the whole profit of its exchange. But Fertile Island can induce as before one hundred laborers to shift from food to shelter, and continue the sale of its advantage. Opposing restrictions may now be successively adopted by each that would end in no exchange between them, though Fertile Island cannot be forced to concede any greater share of the profit of that advantage than it may consent to, even though Barren Island may prevent all profit of the exchange of it between these two communities by refusing to exchange at all.

Private or individual advantage enables one to determine how exchange must be carried on in a single community, and with free exchange between two communities it may be de-

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termined in the same manner; but when communities adopt a restricted policy of exchange, national advantage or policy must determine how they will exchange. They necessarily become units, and exchange as individuals; but how *two* individuals will exchange that are not compelled to exchange at all is beyond the power of demonstration. A would have sold his horse for five hundred dollars had he not been informed that B would have paid seven hundred and fifty had he not known that A would have sold for five hundred. Who can determine the value of this animal or how these two men will exchange? But let C, D, and E appear, who desire it at the higher price, and the problem is quickly solved by this competition.

With food upon Fertile Island having a value of one cost of labor to obtain, and upon Barren Island the value of a greater cost of labor to obtain, and neither absolutely dependent upon the other, and both privileged to adopt any measure that they thought would most likely secure to them the greater share of this possible profit in exchange, if we should be required to

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determine how they eventually would exchange before we were allowed to proceed farther, we should have to dwell on this point forever. But fortunately for the subject, it is not left with these two communities to settle, and must be determined by the whole alphabet of Barren Islands who will compete for the profit of Fertile Island's advantage of production.

Barren Island may still refuse to purchase, but it cannot prevent the sale of this advantage to other communities, and the interest of Fertile Island remains, as we have before demonstrated, to maintain the value of this advantage in order to exchange with the greatest profit elsewhere, and the interest of Barren Island, unless it be without the effective competition of other communities for the profit of Fertile Island's advantage, must be to exchange freely with it at the profit which Fertile Island must concede in order to obtain the greatest total profit of exchange. For a nation that attempts to reduce the advantage of another, unless it be without the effective competition of other communities for the profit of that advantage, by limiting its

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own demand for it, will accomplish it, if at all, at a cost greater than the profit derived, and the principal advantage gained by the reduction in price would be reaped by other nations who were purchasers of the same commodity.

Stopping here, it might be thought that we had overlooked the effect of competition of other Fertile Islands; but there are none. An advantage of production can have no effective competition except by the labor of the community possessing it. It is limited or determined by the competition of other communities, but as soon as a fraction of an advantage is in competition, that fraction ceases to be a part of the remainder, which then becomes the advantage of production.

An advantage of production of labor may disappear, but so long as it exists at all it is without competition. An advantage of production of the labor of a community is that advantage which remains after the competition of other communities has been expressed.

We have employed the advantages of production of Fertile and Fuel Islands to represent

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absolute ones. If we should introduce a Utopian country possessing the equal advantages of both in competition with them for the profit of exchange, the advantages of all three would disappear and remain useless to us and to these communities, so far as exchanging them with profit of labor is concerned, until some circumstance arose that prevented the effectual competition of them. Separating Utopia from the group, let us suppose, and the assumption will seem natural from the time we have given, that great increase of population has come to the rest, capitalizing the gratuity of Fertile Island's soil and Fuel Island's mines, and reducing the advantages of production of labor of these islands to the level of Barren Island. It is evident, as these gratuities have become completely capitalized, that both food and shelter are being produced in communities unfavored respecting them. If we now bring Utopia, with its vast fertile domain and rich coal-deposits and *limited population*, into exchange with the rest, we shall discover that notwithstanding its labor is no more productive than

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the food labor of Fertile Island or the shelter labor of Fuel Island, yet its labor, on account of less rent, can obtain more of both food and shelter for the same amount of labor, and its labor now again has an advantage of production in both of these occupations, and can exchange them with great profit with these other communities which have exhausted their power to compete further for the profit of exchange of these advantages.

With increasing population in this most favored country we may observe the phenomenon of labor losing its share of these advantages which are capable of capitalization. At first it receives nearly the whole profit of them, but a competition for the privilege of their use soon follows that increases the rent of that privilege and reduces labor's share of the product. Greater competition for the profit of exchange will reduce the value of this diminished share, until nearly the whole profit is divided between rent and other communities.

When we see the rent of a privilege increasing, and the value of it declining, it necessarily

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follows that labor is losing an advantage of production.

(Paradoxical as it may appear, it is true that the rent of a privilege may increase and at the same time the value of it decrease. The rent for the privilege of obtaining from the soil may be advancing when the value and profit of exchange of the products obtained from it are declining, and this is likely to be the case in newly developed countries before the shares of rent and labor have been equalized with those of other communities, and under these circumstances the increased rent and the reduced profit of exchange both come out of the share of labor.)

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# CHAPTER VI.

## THE CONSIDERATION OF CAPITAL AND CAPITALIZATION BEFORE A FINAL DEDUCTION CAN BE MADE.

I PROMISED relief from all unnecessary consideration of capital, and so far might excuse the apparent introduction of it not only on the ground of necessity, but on the ground that the capitalization of a gratuity of nature or an advantage of production is not capital. Capital has been described as accumulated or stored-up labor, and as such, the right of individual possession, the right of sale, and the right to loan for a consideration have been ably and successfully defended, but this definition of capital does not include the capitalization of an advantage of production of labor or a gratuity of nature. It cannot be said that this subject is dis-



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posed of without inquiry into the nature of this capitalization of gratuities, upon what it depends, and its effects upon labor and exchange.

Land on Fertile Island, owing to the quantity of it, has no value. Suppose you limit the quantity of that land to a little above the quantity being used, still it may have no value. Now let exchange with Barren Island begin. Food labor from Fertile Island at once exchanges with great profit. The shelter labor of Fertile Island must begin to shift into food labor there, and soon there is no land for the belated shelter labor to work upon. Then demand for land gives it a value, and rent must begin, and this rent must soon equal just the amount of the gratuity or advantage of that soil. The gratuity has now all been capitalized, and the labor of Fertile Island has lost its advantage of production. The labor of this favored community has not only lost the power of selling this gratuity, but must now purchase it itself on the same terms that it formerly sold it to others, and its standard thereby be reduced to twelve hours, the standard of Barren Island.

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So that had the rich soil of Fertile Island been *limited*, the arrival and competition of the one hundred strangers would have threatened the labor of that community with a still greater calamity. With an unlimited advantage, labor can be deprived of the profit of its exchange only by increased competition. But with a limited one capable of capitalization, increased competition or population must capitalize it, and deprive labor of the gratuity itself.

Fortunately for the labor of Fertile Island, the same means formerly employed, of inducing this added labor to engage in shelter, will operate to avert this second disaster by preventing or modifying that increased demand for land and that capitalization that otherwise must take place; so it appears that a restrictive measure that limits the production of a gratuitous commodity, and maintains its value so that it can be most profitably exchanged elsewhere, also operates to prevent an increase in the capitalization of the gratuity itself (if it be one capable of it). And now it is developed that the interest of labor and the interest of the capitalization

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of an advantage of production (or rent) are diametrically opposed to each other. But this capitalization of a gratuity must not be confounded with other capital defined as stored-up labor.

The capitalization of the gratuity of the soil of Fertile Island forces labor to give up a part of the product of which it formerly received the whole, and gives to labor no advantage whereby it may increase that product, and consequently reduces its standard; but the capital of stored-up labor will increase the product of Fertile Island labor more than the share of that product that it must pay for its use. The food labor of that island, with the assistance of capital in improved agricultural implements, might produce as much food in one hour as it formerly obtained in three, and could pay the product of one hour's labor for these appliances and yet obtain its food with two hours' labor and thus improve its standard one hour by and after payment for the use of this capital. And labor will obtain the use of this capital at a lower price (for a less share of its products) with

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every increase of it, and therefore, in its own interest, must favor the accumulation of it.

We may eliminate this capital of stored-up labor from our subject, as it can only modify (*by increasing*) the advantages of production of labor employing it. It is one of the factors that determine the advantages of production of labor, but cannot alter the principle upon which they may be most profitably exchanged elsewhere. It is too plain to need further consideration, that maintaining the greatest total profit of exchange would operate to increase the accumulation of capital and labor's share of the very advantages that were being maintained.

We might for the same reasons eliminate capitalization of a gratuity, as it can only modify (*by diminishing*) the advantages of production of labor, and cannot alter the principle upon which advantages may be most profitably exchanged; and maintaining the greatest profit of exchange of advantages that are capable of capitalization also operates to maintain labor's share of these advantages. But it is clear that the capitalization of a gratuity is a compensating

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factor whereby a *community as a whole* may maintain the profit of its sale in foreign exchange after the labor of that community has, by competition, been deprived of it, for capitalization takes up this gratuity, commences its sale to the labor of the same community, and continues its sale to the labor of other communities; and we must know to what extent this capitalization may be relied upon to maintain the most profitable exchange of an advantage of production before we can be certain whether (considering the community as a whole) any limitation of the competition of labor is necessary to maintain the greatest profit of exchange of an advantage of production.

It is evident from the foregoing illustrations that after a gratuity has become completely capitalized no part of it will be thrown in or given away to the labor of the same or any other community, even if no restrictive measure be adopted; therefore a community (as a whole) could lose no advantages it possessed under free exchange if all its advantages of production were immediately to become com-

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pletely capitalized (except in so far as the title to them might be held elsewhere). Labor, it is true, would lose its share in them, but they would still be in possession of individuals who would continue the sale and profit of exchange.

But if complete capitalization does not take place, the uncapitalized part remains the advantage of labor, and (with unlimited competition) must be given away in exchange to the labor of other communities. Under free exchange the capitalization of the advantages of production of labor is the only factor upon which a community with an unlimited competition can rely to prevent giving away those advantages to other communities.

The capitalization of an advantage of production of labor depends upon its limitation. If it is absolutely unlimited, it cannot be capitalized at all. If it is great compared with the amount of labor that can engage in it, its capitalization must be small. If it is comparatively limited, its capitalization will be proportionately great. Only in the more limited gratuities, then, can this capitalization be relied upon by a nation to

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maintain its advantages of production. In the less limited ones it will be of some service, and in the unlimited ones of no use at all.

The introduction of these elements, capital and capitalization, into our examples has not destroyed their value. It has only increased the force of their results with respect to labor possessing an advantage of production; for the same competition that will deprive labor of the profit of its sale may also induce capitalization that will deprive labor of the advantage itself, and it has only modified their results with respect to the community as a whole in the degree that capitalization ensues.

It is now clear that no capitalized advantage can be wrested from the community possessing it, and that the policies of contrasting countries respecting the degree of capitalization of an equal natural privilege must, in their own interests, be just the reverse of each other as to limiting competition in it.

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# CHAPTER VII.

## EXCHANGEABLE VALUE IN A COMMUNITY DETERMINED BY THE COST OF LABOR TO OBTAIN IN PRODUCTION THERE.

It might be thought that in the exchange of labor all of the essential principles that govern the complex international exchanges of modern communities have not been disclosed. Adam Smith declared that labor was the real measure of the exchangeable value of all commodities, and had this great master consistently made use of this standard measure of value, his service to science might have been even greater. The only apparent reason for his not doing so was failure to find the rule of proportionate amounts of labor that determine the exchangeable value of commodities.



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"Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life. . . . It is but a very small part of these which a man's own labor can supply him. The far greater part of them he must derive from the labor of other people, and he must be rich or poor according to the quantity of *that labor* which he can command. . . . The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of *labor* which it enables him to purchase or command. Labor, therefore, is the real measure of the exchangeable value of all commodities."

If this quotation from the "Wealth of Nations" is carefully considered it will be seen that this rule of measure cannot properly be deduced from the premises, for if one is rich or poor according to the quantity of "the necessaries, conveniences, and amusements of human life" he can command, it does not follow that he is rich or poor according to the quantity of

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some *one* of them that he can command, unless they have a fixed relative exchangeable value —which is not shown and is not true.

If the value of a commodity is equal to some proportionate quantity of a variety of labors that it will command, its value cannot be equally measured by the quantity of one labor it will command unless it will command an equal quantity of each.

If every man is rich or poor according to the necessaries, conveniences, and amusements of life that he can command; the wealth or poverty of labor must depend upon the quantity of these that labor can command; and if the amount that a laborer can command may be measured by the amount of labor that he can command, as he can always command the same amount of his own and an equal amount of some other, he should always be able to command the same amount of the necessaries, conveniences, and amusements of life.

"The power which that possession immediately and directly conveys to him is the power of purchasing a certain command over all the

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labor, or over all the produce of labor, which is then in the market. His fortune is greater or less precisely in proportion to the extent of this power, or to the quantity either of other men's labor, or, *what is the same thing*, of the produce of other men's labor, which it enables him to purchase or command. The exchangeable value of everything must always be precisely equal to the extent of this power which it conveys to its owner."

Passing over the reaffirmance that the value of a possession is determined by a certain command it has over *all* the labor or over *all* the produce of labor, and also can be measured by the quantity of *any* labor or produce of *any* labor it can command, and noticing only that labor and its products are now declared to be equivalents, or that one is rich or poor according to the amount of labor he can command, and equally rich or poor according to the amount of its products he can command, it will be seen that it must follow that labor and its products have a fixed relative value, and there could be no change in the amount of labor's

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products or the share that labor receives of them.

A possession, exchanging for quantities of these different products of labor of equal value, would command very unequal amounts of labor according to the proportionate shares that different labors receive of its products. In exchanging for one bushel of oysters and two bushels of clams, both of equal value, it might command, as we have shown, only one third of the amount of labor with oysters as with clams, Which of these different amounts of labor would measure its value? Measured by the amount of labor it would command with different commodities, it would have as many values as there were commodities in which labor received different proportionate shares of its products. Measured by the amount of labor it would command with a commodity in which labor received the whole of its products would not determine its exchangeable value with other commodities in which labor received only a share of its products.

Labor, or a commodity that labor in produc-

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tion received the whole of, would under any circumstances command an equal amount of other labor that received the whole of its products, but it would command a different proportionate amount of some other labor with every variation in the share that this labor received of its products; so that the wealth of labor, or a possession, measured by "the necessaries, conveniences, and amusements of human life" it could command, might change with every variation in the share of them that any labor producing them received of its products, and yet, measured by the amount it could command of any labor producing them that received the whole of its products, would not change at all.

Mr. Smith commenced by showing value to be "the necessaries, conveniences, and amusements of human life"—not one but all of them—and degree of wealth was determined by its power to command (in some proportionate amounts) all of them, and this power would be equally measured by the quantity of labor it would command. Unless a given quantity of

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labor would invariably exchange for some and the same proportionate amounts of them, labor cannot be employed as a measure of this power or value. The power of wealth or labor to command "the necessaries, conveniences, and amusements of human life" cannot be accurately measured by anything it can command except "the necessaries, conveniences, and amusements of human life" until something be found that has a fixed relation to this value. No evidence need be presented to show that labor does not have this fixed relation, and it is expressly declared in the following quotation:

"Equal quantities of labor at all times and places may be said to be of equal value to the laborer. He must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these, indeed, it may sometimes purchase a *greater* and sometimes a *smaller* quantity, but it is their value which varies, not that of the

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labor which purchases them. Labor alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared."

The premises now have been completely changed. Formerly the standard of value was the necessaries and conveniences of life. Now it is labor, and labor's value does not depend upon the amount or its share of its products, or its exchangeable value at all, but upon the cost of ease, liberty, and happiness to the laborer. These new limited premises properly limit this rule of measure to the *value of labor*, and it now must be admitted that the value of a commodity *in labor*, and its exchangeable value *in labor*, can be measured by the quantity of *labor* it will command; and the power of wealth to command the ease, liberty, and happiness of laborers can be measured by the quantity of *labor* it can command.

(Under this rule, the measure is strictly limited to labor commanded directly and not through its various products; otherwise there

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would be the same variety of measures as before.)

This rule of measure, stripped of the show of power with which subtle fallacy clothed it, is of less importance, for it can only measure the value of the products of labor in labor (after their value in labor has been determined by some proportionate amounts of labor that this rule of measure has no power to disclose), precisely as their value (or the value of labor) can be measured in the value of any commodity by the amount of it they can command. And labor measured by its power to command any or all "the necessaries, conveniences, and amusements of life" varies in value, like commodities, with changes in the conditions of production and exchange; and unless it can be shown that labor varies in this value less than some commodity, labor would have no advantage over it, *under this rule*, as a measure of this value or power.

An overestimate of the capabilities of this rule of measure perhaps prevented Adam Smith's formulating a rule of proportionate amounts

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of labor that *determine* the exchangeable value of and exchange with the products of labor.

Referring to the "component parts—labor, profit, and rent"—that make up the price or value of commodities, he says: "The real value of all the different component parts of price is measured by the quantity of labor which they can each of them purchase or command. Labor measures the value not only of that part of price which resolves itself into labor, but of that which resolves itself into rent and of that which resolves itself into profit."

It is not enough to know that the value *in labor* of the component parts of price of commodities may be measured by the amount of labor that they together or separately may command, for they might perhaps all as usefully be measured by anything else that they could command. It is more essential to know what *determines* their value *in labor* and consequently the amount of labor that each and all of them will command.

Mr. Smith observed that in a primitive community the exchangeable value of all commod-

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ities would be proportionate to the amount of labor required to produce them, and that after the accumulation of stock and appropriation of land this would not be the case (Bastiat did not appear to notice this), but apparently failed to see that in both and all cases (in the same community) the exchangeable value of the products that labor continued to obtain in production there would be proportionate to the cost of labor to obtain them, and amounts of labor would exchange with them proportionate to the shares that labor in production obtains of them, and that the value of all the component parts of price must be proportionate to the cost of labor to obtain labor's part; otherwise he would not have limited his statement that "the proportion between the quantities of labor necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another," to "that early and rude state of society which precedes the accumulation of stock and the appropriation of land," for this limitation was altogether unnecessary.

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The introduction of stock and rent into the primitive community can in no way alter the principles of exchange of labor or its products, as the accumulation of stock and appropriation of land simply alter the conditions under which labor acquires or obtains them, and do not affect the principle of exchange of them any more than different natural conditions under which labor might obtain its products would do.

Labor may obtain more or less, as the case may be, under these new conditions, just as it would under varying natural conditions; but it exchanges proportionate to that which it can itself obtain for a given amount of a given quality of labor, whatever be the conditions under which it obtains them.

The fact that labor obtains the whole of its products in a primitive society, and less than the whole after the accumulation of stock and the appropriation of land, can in no way affect the principle of the exchange or value of them being proportionate to the cost of labor to obtain them. For illustration we will introduce stock

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and rent into Mr. Smith's example of exchange of labor in a primitive community.

"If among a nation of hunters it usually costs twice the labor to kill a beaver which it does to kill a deer, one beaver should naturally exchange for two deer. It is natural that what is usually the produce of two days' labor should be worth double of what is usually the produce of one day's labor."

In this example deer and beaver would exchange proportionate to the amount of labor it required to kill or produce them, and as hunters obtain (for themselves) all that they kill or produce it takes the same amount of labor to obtain them as to produce them; therefore deer and beaver also exchange proportionate to the cost of labor to obtain them.

If deer-hunters could obtain a weapon (stock or capital) that would enable them with equal labor to kill four deer by the payment of one deer out of every four that they killed for its use, then the same labor that killed or produced four deer would obtain only three. Equal labor

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may now obtain three deer or one beaver; therefore three deer would exchange for one beaver, otherwise a hunter could obtain more of one by hunting the other. The value of deer now would not be proportionate to the amount of labor required to kill or produce the four, but proportionate to the cost of labor to obtain the three. Deer would not now exchange with beaver proportionate to the amount of labor it required to kill or produce them, but in both cases would exchange proportionate to the cost of labor to obtain them.

The value of deer now reduced to the cost of labor to obtain them under these more favorable circumstances (which the accumulation of stock made possible), a deer-hunter must give three deer for one beaver, and the standard of labor has been improved by this reduction in their cost, for labor can now obtain three deer and one beaver for the same cost of labor that it required before to obtain two deer and one beaver; and the effect upon labor of this accumulation of capital is precisely the same as though deer had become more plentiful.

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The beaver-hunter has gained all the advantage in exchange, and both gain equally the advantage in consumption. Each can now obtain one and one half deer and one half a beaver at the same cost of labor that before obtained only one deer and one half a beaver.

It is evident that with greater accumulation of capital (weapons), other conditions remaining equal, capital must accept a less share (interest) for its use, and the share that the hunter obtains of the total product will be increased. Therefore increase of proportionate capital reduces the cost of labor to obtain commodities.

If now the proprietor of the hunting-fields should demand (rent) a share for the privilege of killing them, and the combined shares of the privilege and the weapon were two deer out of every four killed, then the same labor that killed or produced four deer would obtain only two. Equal labor may now obtain two deer or one beaver; therefore two deer would exchange for one beaver, and the value of deer would be increased to the cost of labor to obtain them under these unfavorable circumstances (which

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the appropriation of land made possible), and the standard of labor reduced with the greater cost of labor to obtain them. The effect of this rent upon labor and the value of deer is precisely the same as though deer had become less plentiful.

It is evident that increased demand for the same privilege, other conditions remaining equal, will increase the share of privilege (or rent), and the share that the hunter obtains of the total product will be diminished. Therefore increase of proportionate rent increases the cost of labor to obtain commodities.

It should be noticed that beaver and deer hunters at first exchanged equal amounts of their labor with their game, and under each new condition exchanged different proportionate amounts, but in every case amounts proportionate to the share that labor obtained of beaver and deer under the circumstances.

Nor can the universality of this law be affected by uniting labor with stock. Suppose (in the first example introducing stock) that some necessary labor or service was rendered

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by the owner in the management and care of the weapons, and to keep up the stock. It is evident that his labor must be included in both the amount required to kill and cost of labor to obtain deer, and that the wages of this labor was included in the deer that was paid to him by the hunter apparently for the use only of the weapon. Assuming that his labor or service was equal to one sixth of the labor of the hunter, then only one half of the deer he received was for the use of the weapon (or stock), one half was the wages of labor, and the ratio now between the whole cost of labor in obtaining deer and the whole amount of deer (or wages) that labor obtained would be one and one sixth labor to three and one half deer, or one labor to three deer, precisely as before.

It is evident that if any labor or service was united with the rent or privilege to take deer the value of deer would still be proportionate to the cost of labor to obtain them.

(The exchangeable value of the share of each of all the component parts that go to make up the price or value of deer is in every case also pro-

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portionate to the cost of labor to obtain labor's part and varies without change in the amount of labor required to produce all these parts.)

Adam Smith considered labor subject to the same laws of supply and demand as a commodity, and that the demand for labor must necessarily depend upon and be limited by the amount of "surplus revenue" derived chiefly from stock and rent to employ it.

"The demand for those who live by wages, it is evident, cannot increase but in proportion to the increase of the funds which are destined for the payment of wages."

Labor was employed before the accumulation of stock and appropriation of land, or any revenue (in the sense of the quotation) derived from the use of either, and the products of that labor were the wages of it, and *the products and service of labor can never equal the demand for them.*

The products and wages of labor are, in great part, the same commodities, and that part of either that is not immediately consumed becomes stock, and now labor will as willingly

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exchange its labor for accumulated wages as for the wages of production.

"When the landlord, annuitant, or moneyed man has a greater revenue than sufficient to maintain his own family, he employs either the whole or a part of the surplus in maintaining one or more menial servants. Increase this surplus and he will naturally increase the number of those servants."

This is equivalent to the employment of labor with accumulated wages and in the consumption of stock, and this employment of labor is limited to the amount of that accumulation, but *the employment of labor in production is only limited by the means of subsistence.*

The variation in the accumulation of stock varies the amount of labor that can be employed in consumption only.

It is the redistribution of labor made necessary by the limitation of its employment in consumption, or the variation in the proportionate demand and supply of the particular products and services of labor, that seems to be a variation in the demand and supply of labor itself.

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It is partly due to the error that the employment of labor is limited that the introduction of labor-saving appliances is frequently opposed, and that the labor in some countries will submit to the support of great armies of unproductive labor.

Many have considered the employment of labor in consumption to be of great advantage to labor, and equal to that of its employment in production; but although the immediate advantage to the individual laborer may be the same in both cases, the effect upon labor of these two employments of it is very different.

"The landlord, annuitant, or moneyed man" that does not employ labor with his surplus stock in consumption must employ the same amount of labor with this stock in production in order to derive any advantage or profit from it, and this will result in a further accumulation of stock and reduce the price that labor must pay for its use and increase the wages of labor.

It is clear that stock not only increases the products of labor, but the greater proportionate accumulation of it increases labor's share of the

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increased product. The accumulation of stock represents at least the denial of the gratification of its immediate consumption.

Variations in rent depend upon quite different circumstances. The advantages of production for which rent is paid are limited, and the value of the privilege to use them depends upon the demand for that privilege, and this demand depends not only upon the proportionate population of a community, but upon the opportunity they afford for profitable exchange elsewhere.

The exchangeable value of a commodity in which rent for the privilege of obtaining from the land is an important factor is equal to the cost of labor to obtain this commodity under the most unfavorable conditions of production or exchange under which any of it is of necessity obtained; and labor derives no advantage from the more favorable conditions of production, exclusive of rent, under which all the balance of it is obtained, because all the advantage of the otherwise more favorable conditions of production becomes a share of rent; so that if increasing demand for a commodity, either

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for home consumption or for the profit of exchange elsewhere, forces labor to obtain the additional quantity demanded under still less favorable conditions, then labor must pay a greater rent (equal to the difference in the cost of labor to obtain it under these least favorable conditions) on the whole amount which it previously obtained (without the other conditions of production of this amount having been changed at all, which would be a greater rent for the same privilege), and the share of rent of that same product of that same labor would be increased and the share of labor diminished. It is clear that every increase in the proportionate demand for the products of the soil must increase the value of privilege or rent, and diminish labor's share of its total products without increasing them.

It is evident that reversing the conditions of production or exchange, so that the least favorable conditions under which labor must obtain a part become more favorable, will reverse the proportionate share that rent and labor obtain of this commodity.

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Of two contrasting countries, one producing and selling a commodity of advantage, and the other producing and purchasing the same commodity, the maintaining the value of this commodity in one, for the profit of exchange, operates also to maintain labor's share of the advantage, and is protection of labor. But in the other community the attempt to maintain the value of this same commodity, which there would be one of disadvantage, would reduce its profit of exchange and also diminish labor's share of that amount of this commodity that it produced at home by forcing it to obtain that amount at a further disadvantage of increased rent for the same privilege, and would be protection of capitalization.

With unlimited competition for the profit of an advantage that is capable of capitalization, labor must continue to obtain the commodity under less and less favorable conditions of production, and increasing its production must reduce the value of it until the whole advantage has been equalized with the rent and labor of other communities. When the labor or competition in a com-

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munity is insufficient to accomplish this, the profit of exchange must continue to attract the labor of other less favored communities until it becomes great enough to do so.

Although increasing rent for the privilege of obtaining from the soil generally represents less favorable conditions of production under which labor must obtain commodities, increasing rent for the privilege of occupation and use of it for the manufacture and exchange of commodities generally represents otherwise more favorable conditions of production or distribution.

A great part of the value of the land in centers of manufacturing, transportation, and exchange represents the capitalization of an advantage of production—one that can only be secured by centralization—and this advantage of production may increase with increasing population and rent; but as variations in proportionate rent for these privileges would not be materially affected by any particular policy of exchange, they need not be considered here.

To quote Mr. Lunt: "But tell the same man some economic commonplace—that the millions

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of dollars paid every year in rent has no effect on the price of bread—and this time, too, he will listen in wide-mouthed astonishment."

It is not alone "the average untaught man" who has been or is likely to be embarrassed by this economic paradox. Many even of those best acquainted with the technical meaning of rent have been confused by it.

To quote Mr. Mill: "Rent, therefore, *unless artificially increased by restrictive laws*, is no burden on the consumer: it does not raise the price of corn, and is no otherwise a detriment to the public than inasmuch as if the state had retained it, or imposed an equivalent in the shape of a land-tax, it would then have been a fund applicable to general instead of private advantage."

Thus Mr. Mill employs rent in both its ordinary and technical meanings in the same sentence. It can only be in its ordinary meaning that some rent is a burden on the consumer and some other is not, for rent in its technical meaning is no burden at all. Rent technically, and according to Mr. Mill, may increase with

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increasing price of corn without limit under natural causes and not be a burden on the consumer, because "it does not raise the price of corn." Still it becomes a burden, according to Mr. Mill, upon the consumer when it increases with a rise in the price of corn that is caused by a restrictive measure. Rent is not a burden in the one case *because* it does not raise the price of corn, and is a burden in another *when* it does not raise the price of corn—both of which cannot be true unless rent is employed with different meanings.

Apparently because rent is not a burden in its technical meaning Mr. Mill will not concede that it is a burden in its ordinary meaning except when it is induced by some particular conditions that he does not approve of.

It is true that rent is not a cost of production, nor does it affect the price of bread. It is itself the effect of one of the conditions that determine the cost of labor to obtain bread. Nevertheless diminishing the share of labor and increasing the share of rent is no less a burden upon labor because rent is not responsible for it.

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While this quotation is conveniently before us it should be noticed that Mr. Mill assumes —which is true—that rent may be increased by restrictive measures. Restrictive measures that operate to increase rent should be most carefully considered by labor. We have shown it to be also equally true that restrictive measures may reduce the share of rent or prevent its increase, and this also must be considered in determining the policy of labor.

As rent represents one of the conditions of production (proportionate demand for privilege) that determine the cost of labor to obtain bread and other commodities, variations in this condition may vary rent for the same privilege, in which case there will be a corresponding variation in the cost of labor to obtain bread.

Variations in interest and variations in rent (using these terms to represent the conditions that determine them) are most important factors in determining the cost of labor to obtain most of its commodities, and the cost of labor to obtain them all determines the wages and standard of labor. The difference in the pro-

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portionate share that labor may obtain of its products in different communities is in some cases as important as the difference in the amount of its products in determining the comparative wealth of their labor. It is the difference in the share that labor obtains of commodities, as well as in the amount of labor required to produce them, that determines the advantages of production of labor in civilized communities. It is on this account that it is possible for equal labor in a less populous country, with only equal fertility and natural advantages to those of some more populous one with greater capitalization (higher rent for the same privilege), to obtain commodities in which rent is a chief component part of value for less labor, even though it required equal labor to produce them, and it is this which gives to that labor an advantage of production in these occupations and permits it to exchange these commodities elsewhere at a profit of labor.

It is on this account that it is possible for labor in a country with equal skill and appliances to those of some other with less accumulation of

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capital (stock) proportionate to the demand for its use, making interest higher, to obtain its commodities, in which interest is an important component part of value, for a less amount of labor, even though it costs the same amount of labor to produce them, and it is this which gives to that labor an advantage of production in these occupations and permits it to exchange these commodities elsewhere at a profit of labor; but, owing to the facility with which stock may be exchanged and the profit of it equalized, interest is less important than rent in determining the comparative advantages of production of the labor of different communities. The increase in rent that must result from the unlimited competition of labor for the profit of exchange of limited advantages, although most important to labor, is seldom considered. When the competition or population of a country becomes great enough to capitalize all its natural advantages that country has no further need to limit competition in them in order to maintain them, and the labor of that community must look for advantage in com-

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modities in which rent is a chief factor, to exchange with the labor of more favored ones.

While showing that the exchangeable value of commodities that labor continues in production to obtain is determined by the cost of labor to obtain the share that it receives of them, it was made apparent that they will also command the same proportionate amount of labor; and it may be queried what difference there is in that, that the exchangeable value of commodities can be *measured* by the amount of labor they will command, and that the exchangeable value of labor's products is *determined* by the cost of labor to obtain them in production.

But it is vital, and upon it alone labor might rest its claim of supremacy as a standard of exchangeable value. Under the rule of measure, the value of commodities that labor does not produce at all can be measured in the value of labor precisely the same as its own products. The values of commodities are measured in the value of any other commodity by the amount of it that they can command, and as commodi-

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ties do not vary in their own value on these grounds alone there could be no advantage in employing labor as the standard.

Mr. Smith found other commodities useful to measure value, and employed corn more often than labor in estimating and comparing the values of other commodities. And as this great teacher in practice showed no preference for labor as a measure of value it is not surprising that Ricardo accused him of inconsistency and pointed out the insufficiency of his rule of measure and attempted to find a more serviceable one—a rule of the proportionate labor that determined the exchangeable value of its products. That this attempt was unsuccessful is shown by his making "the comparative quantity of labor which is necessary to their production the rule which determines the respective quantities of goods which shall be given in exchange for each other."

Mr. Mill, accepting Ricardo's rule, and upon the supposition "that England could produce ten yards of cloth with the same labor as fifteen of linen, and Germany with the same labor

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as twenty of linen," and aware that "it is even possible to conceive an extreme case in which the whole of the advantage resulting from the interchange would be reaped by one party, the other country gaining nothing at all," attempted to show "what are the causes which determine the proportion in which the cloth of England and the linen of Germany will exchange for each other."

Even allowing the rule of Ricardo to be adequate, it could not be expected that calculations upon Mr. Mill's supposition would be fruitful in showing the principles of exchange of an advantage in production, as the comparative amount of labor to produce these two commodities in each country only is shown. The comparative advantage of the two communities in them is not represented, and, this not being determined in the postulate, either community might have a great advantage in the production of both, or they might have equal advantage in cloth and one a greater advantage in linen, or equal advantage in linen and one a greater advantage in cloth, or one an advantage in linen and the

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other an advantage in cloth, and still "England produce ten yards of cloth with the same labor as fifteen of linen, and Germany with the same labor as twenty of linen"; consequently it is not surprising that a series of most exhaustive examples based upon these premises should result in establishing only "the equation of international demand," which "may be concisely stated as follows":

"The produce of a country exchanges for the produce of other countries at such values as are *required* in order that the whole of her exports may exactly pay for the whole of her imports."

But in order that "her exports may exactly pay for her imports," no particular values of the commodities of either are required. Exports are made to exactly balance imports by a variation in the quantities precisely the same as by a variation in the values of commodities exchanged. So that after these intricate calculations Mr. Mill is precisely where he began with respect to "what are the causes which determine the proportion in which the cloth of Eng-

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land and the linen of Germany will exchange for each other."

Exchangeable value fluctuates with changes in the proportionate "demand and supply." The value of a commodity in labor might be very much greater or less than the cost of labor to obtain it in production if the quantity produced was not regulated; and it is because labor regulates the proportionate supply of such a large part of "the necessaries, conveniences, and amusements of human life" to the proportionate demand for them—a power possessed by no other commodity—that it is preëminently the standard of exchangeable value.

Labor in every community regulates the production of its various products in the proportionate quantity of each of them to make their value equal to the value of the labor that they cost labor in production to obtain the share it receives of them, and thus reduces them to and maintains them at this value.

(This fundamental law is only modified by impediments to effective competition. If deer and beaver do not at any one time exchange

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precisely in this proportion it must not be considered the less operative, for with respect to all laws that rely upon competition to establish them the mean of fluctuating values must be taken. So that with Ricardo—completing the sentence a part of which only was previously quoted—"we must not be supposed to deny the accidental and temporary deviations of the actual or market price of commodities from this their primary and natural price.")

Even if it should be denied that the cost of labor to obtain in production the share it receives of them determines the exchangeable value of labor's products, and claimed that they are primarily determined by the conditions of production or by other causes or in other ways, the fact would still remain that they are maintained by labor in this proportionate relation; and this fact is the one of practical importance. This operative power of labor in all communities makes it not only desirable to employ it as the standard of value in calculating the profit of exchange, but makes labor the value in which its products do exchange, and therefore neces-

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sary to do so. It matters not what variations may take place in labor's conditions of production, it maintains the relative value of its products at the cost of labor to obtain the share it receives of them; and the foundation principles of exchange in primitive communities, under this rule will hold good after the accumulation of stock and appropriation of land, or the introduction of the shares of interest and rent.

Although Dr. Smith pointed out the fact that the profits of stock and rent were independent of the wages of the service or labor that might be united with them, yet he sometimes examined them in combination and finally included all the wages of that labor or service rendered by the employers of stock, "the plans and projects" of whom "regulate and direct all the most important operations of labor," in the profits of stock, and combined in use himself these two elements that he had taken the greatest pains to separate. He states that "the revenue derived from stock by those persons who manage or employ it is called profit, that derived from it by those persons who do not employ it them-

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selves is called interest for the use of money." Money is stock, and the payment for the use of stock may be called the interest of money on some occasions and the profit of stock on others, but it will make of it none the less on all occasions a payment for the use of the capital of stored-up labor.

The mere use of stock is capable of gratifying the desires of mankind, and it is also capable of increasing the production of labor and means of doing so, so that it may be said to have a value in consumption (meaning now the consumption of its use only) and a value in production; but it is proportionate to the value or quality of the service united with stock, and not to the stock itself, that the production of labor will be increased or revenue be derived from its use in production, so that all that part of the revenue derived from the employment of stock by labor in production, above that revenue which might be derived from it independently of any service or labor, is for the payment of wages, and when labor employs stock in production it is for the purpose of increasing the value of its service

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and wages. If a laborer makes use of his own accumulated stock in production he loans to himself on the same terms that he would have to borrow from others, and uses it for the same reason and purpose. And this is as true of the banker, the merchant, the manufacturer, as of any other labor whatsoever.

Interest and rent are elements apart from the wages of labor and service, and all three must be considered independently in order to understand the relation of each to the others—wages, interest, and rent, the three partners that divide the total products of labor. And this can only be done by uniting all labor and service and observing the cause of variations in interest and variations in rent and the effect of these variations upon the wages of that labor and service, and it is for this reason that we have proceeded upon this plan in our endeavor to establish under what circumstances a community and the labor of a community could maintain the greatest profit in exchange elsewhere of advantages of production.

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## CHAPTER VIII.

### DEDUCTIONS.

WE believe that these examples and illustrations show: That at every point of production the exchange value of the different commodities produced there is determined by, and will be proportionate to, the cost of labor to obtain them in production, and values of labor will exchange with them proportionate to the shares that equal values of labor in production receive of them.

Defining an advantage of production of labor to be—that excess quantity of the same commodity that equal labor may obtain in production in one community as compared with other communities—

That an advantage of production of labor will enable the labor of a community possessing it to maintain a higher standard of living than it



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would be possible for it to maintain if conditioned otherwise the same, but lacking this advantage.

That this advantage under a limited competition will be maintained by the labor of such a community, and that part of it above the cost of transportation can be sold to (in exchange with) another community, and the standard of labor raised still higher by the profit of the sale.

That this advantage, if capable of capitalization, cannot be maintained by labor with increasing competition. That this advantage, if incapable of capitalization, or remaining uncapitalized, must be given away to (in exchange with) another community with increasing competition.

That increasing competition increases the capitalization of an advantage of production that is capable of being capitalized.

That capitalization of an advantage of production takes it from labor altogether.

Therefore unlimited competition not only deprives labor that has an advantage of production of the profit of its sale, but, if it is capable

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of capitalization, deprives it also of the advantage itself.

That a nation with labor sufficient to make an effective competition must protect the value by limiting the production of commodities in which its labor has advantages (that otherwise would not become capitalized) in order to exchange these commodities with the greatest profit elsewhere.

That its labor must pursue the same policy respecting all of its advantages, not only in order to exchange its products with greatest profit elsewhere, but to prevent the capitalization of such advantages as are capable of it, and thereby be deprived of these altogether.

That in order to protect the value or to limit the production of commodities of greater advantage some part of its labor must be kept employed in other commodities in which it has less advantage and that it otherwise would exchange for elsewhere.

That in order to keep labor employed in occupations of less advantage the profits of labor in these occupations must be equalized to the

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profit of labor in the occupation of greatest advantage.

That a nation must not limit the production of these commodities beyond that point at which they will exchange with the greatest profit elsewhere. Therefore it must employ as great a part of its labor in occupations of greatest advantage as is consistent with maintaining the full profit of them in exchange elsewhere. So that as much labor should be allowed to engage in the occupation of greatest percentage of advantage as is consistent with maintaining the value of its product at the point at which it will exchange with greatest total profit elsewhere. With a greater amount of labor than can be thus employed it should be directed into the occupation of next greatest advantage by equalizing the profits of the two occupations, and this second occupation of advantage should be reaping the greatest total profit of its exchange elsewhere before the third is taken up, and so on down to those occupations of equal advantage.

That a nation exporting a commodity in

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which its labor has an advantage of production that is being maintained cannot export one of lesser advantage without equalizing the profits of labor in the two occupations.

That an import tax cannot be made to equalize the profits of labor in commodities of different advantage in exportation; therefore under this system the profit of exchange of a lesser advantage cannot be obtained so long as the profit of some greater one is being maintained, and with increasing population labor must be induced into occupations of disadvantage and thereby reduce its profit of exchange in order to maintain the profit of exchange of the greater advantage.

That the value of a commodity cannot be maintained above the cost of labor to obtain it in production in the unfavored, or below the cost of labor to obtain it in production in the favored, community; therefore a commodity of equal advantage will only be induced to exchange elsewhere by the profit of some advantage of another community.

Therefore a community that induces labor

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into commodities below equal advantage, as commodities of equal advantage would otherwise exchange for them, will be refusing the profit of the advantages of other communities and reduce its profit of exchange.

That a nation cannot (by inducing labor to shift occupations) increase and maintain the value of a commodity in which its labor has no advantage of production, and exchange it more profitably elsewhere, nor depress the value of a commodity in which the labor of another community has an advantage of production (unless it be without effective competition for the profit of that advantage), and exchange for it more profitably elsewhere.

Therefore the policy of a nation with no commodity in which its labor has an advantage of production (unless it be without effective competition for the profit of the advantage of some other) must be that of absolute freedom of exchange in order to maintain the highest standard of which it is capable.

The profit of an advantage of production of labor cannot be maintained by the particular

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labor engaged in it. It must be either capitalized or given away in exchange and equally shared with other labor of the same community; and unless the competition of its own labor for the profit of exchange is limited it cannot be maintained by the labor of the particular community possessing it. It must be either capitalized or given away in exchange and shared with other communities.

There is a point of maintaining a commodity in which labor has an advantage that will bring to a community the greatest total profit that can be obtained by the exchange of that commodity elsewhere, and maintaining the value of it cannot increase its cost to other labor in the same community; for unless other labor receives an equivalent its value cannot be maintained, for labor will not produce a commodity of less advantage so long as it can obtain more of it by producing this other; and this it can do so long as this other is exchanging with greater profit elsewhere.

A bounty or its equivalent is required to maintain labor in an occupation, not *because* it

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is one of disadvantage, but because it is one of less advantage than some other in the same community. Therefore bounty does not represent a cost to be deducted from the profit of exchange unless it induces from occupations of greater advantage more labor than it is necessary to do in order to maintain the greatest total profit of exchange of them, or is great enough to induce labor to enter an occupation of disadvantage and reduce the profit of exchange. An occupation is not one of disadvantage in a community unless it requires more bounty to maintain it than the profit of labor in its greatest advantage.

A bounty cannot increase the value of a commodity in a community above the cost of labor to obtain it in production there; therefore it cannot increase the cost of commodities of lesser (and down to equal) advantage above the cost of labor to obtain them under the most favorable circumstances, except by exchange; but if all the commodities of greater advantage are already being maintained, and exchanged elsewhere with the greatest total

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profit of labor, then a community can obtain these commodities of lesser and equal advantage at the least cost of labor by producing them at home, and can obtain all further commodities of disadvantages at least cost of labor by exchanging these commodities (of lesser and equal advantage) for them.

A community with a balance of advantages of production may by profitable exchange with other communities obtain its total of commodities for a less amount of labor than it would take, under the most favorable conditions of production respecting each, to obtain them.

The necessity of a restrictive policy to the labor of a nation, and the advantage to be gained by it, are proportionate to the degree of its advantages of production.

Unlimited competition or free exchange equalizes the advantages of production of the labor of different communities, partly by the giving them away in exchange and partly by the increase in some and decrease in others of capitalization.

Therefore the labor of that nation has the

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most to gain by an unrestricted policy that has no advantage of production, and the labor of that nation has the most to lose by that policy that has the greatest advantages of production.

That community that does not maintain the value of commodities in which its labor has advantages of production, when exchanging with other countries that do, must give away its own and pay for theirs.

A community requires to consider its advantages of production only, and to protect these advantages against the unlimited competition of its own labor for the profit of exchange, in order to exchange with the greatest profit elsewhere.

That cheap labor is not an advantage of production of a community and represents the unfavorable conditions of production or exchange under which that labor must obtain commodities.

That with the labor of one occupation in a community being able to exchange its products with profit elsewhere, labor cannot be maintained in another occupation that must exchange its products with less profit without being paid an

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equivalent to the difference in the profits of the two occupations.

That with labor free to shift occupations, higher wages in one occupation than another for the same quality of labor cannot be maintained under any system; therefore any system that a nation may adopt that leaves labor free to choose its occupation cannot be of any permanent advantage to some as compared with other labor of that community.

Therefore a national policy of exchange that will bring to the labor of a country the greatest total profit will give to all labor of that country the greatest individual profit, and will maintain the highest standard of labor of which that country is capable.

As the profits of labor when free to shift occupations will be equalized by competition under any policy, the only advantage to labor of an artificial distribution is to maintain the profit of an advantage in exchange elsewhere.

As the loss by that distribution of labor which does not maintain the greatest profit of exchange must be borne by the community, taxa-

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tion to obtain revenue should not be great enough upon a commodity of disadvantage to induce labor to produce it and reduce the profit of exchange.

Taxation should be employed to distribute labor in a way to maintain the greatest profit of exchange, and taxation for additional revenue must not furnish other incidental protection that would change that distribution and consequently reduce the profit of exchange.

No tax should be laid that will afford protection that ought not to be given if no revenue was needed. Incidental protection in itself is economically indefensible.

Taxes upon imports that increase the value of commodities of less advantage above the proportionate cost of labor to obtain them in production compared with commodities of greater advantage that are being exported, cannot increase the cost of labor to obtain the commodities of greater advantage, but will increase the exchange value of them if the value of those of less advantage is maintained. Thus their exchange value may be increased without increasing the cost of labor to obtain them, and if they

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continue to exchange elsewhere it must be upon the basis of their artificially increased exchange value in this community.

Artificial wages cannot increase the cost in labor of commodities of advantage in a community, but they operate as *real* wages in exchange elsewhere.

By the use of these simple communities, free from the complexity of a more developed society, and yet containing every essential element that relates to the exchange of an advantage of production, one is enabled to see the effect of every exchange in both communities at the same time. Under these simple conditions fallacy is less likely to creep in, and can be the more readily detected.

In examining one phase of this elusive subject at a time, some point is likely to remain hidden from view, and we hope that the complete exposure of our defenseless islands will help to forge the missing links, and to bind the fragmentary parts of the chain that the economists have welded, into a serviceable cable to which any ship of state may trust for anchorage.

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## CHAPTER IX.

### OPINION.

WE will now lay aside the burdensome, dangerous weapon of demonstration, and take up the more wieldy foil of opinion. The realm of opinion is a paradise for all. Opinion inflicts no mortal wounds. The data upon which it is based are of small matter. Confusion to the adversary is all-important. One may be brought to his knees by the sharp thrust of opinion, but other opinion rushes to the rescue, and again he is ready for the combat. Who does not enjoy the flourish of opinion? It is more volatile than air, and can maintain itself 'twixt heaven and earth unsupported by either.

Volumes have been written to show the loss to a community by its attempting to artificially cause the production of commodities in which its labor had disadvantages, and broad conclu-



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sions drawn that any interference with the natural production of commodities must reduce the standard of a community that adopted that policy, without considering whether there might not be some advantage in limiting the production of commodities in which its labor had advantages of production. Bastiat gives example upon example of the former class to illustrate the absurdity of refusing the gratuities that other countries are giving away, and does not even consider the equal folly of giving away gratuities that might be sold.

These authors almost invariably assume that the value of commodities will not be changed by any variation in the production of them in the community being examined, as though values were fixed and determined by the competition of other communities independently of this one; for they calculate the profit of exchange of a greater quantity of a commodity upon the basis of its value before the increased quantity is offered. Upon this assumption, for example, an increased or diminished production of cotton in this country would not affect its value or

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the profit of its exchange, and its value would be fixed and determined by the competition of other communities—a total competition less than our own.

When a community exchanges an increased quantity of a commodity, its value, and therefore the percentage of the profit of its exchange, will be reduced. When the quantity is reduced the percentage will be increased. But the variation in the percentage of profit will not under different circumstances be accompanied by a corresponding variation in the total profit of its exchange. The percentage of profit may be increased and at the same time the total profit decreased, or reversely. A community may exchange a small quantity of a commodity of great advantage at a large percentage of profit, yet its total profit will be very small. It may increase the exchange of this commodity, diminishing the percentage of profit and increasing the total profit until a maximum total profit is reached. It may continue to increase the exchange of this commodity, still reducing its percentage of profit and beginning to reduce its

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total profit until the commodity is exchanged without any profit. There is a quantity which, under certain circumstances, if it be either increased or diminished, will reduce the total profit, and this is the point at which the production of commodities under these circumstances must be maintained. It is the total profit of exchange of commodities that must be considered and must determine the policy of a community respecting them. This fact — a most important one — has been commonly, if not altogether, overlooked.

It is most astonishing that economic writers commonly leave out of account the reduction in the profit of exchange that must result from unlimited competition in advantages of production, and the effect that keeping labor employed in other occupations has in limiting the production and maintaining the price of these commodities that are being sold elsewhere.

Quoting from the Hon. David A. Wells's "Practical Economics":

"And if to-morrow our tariff was swept out of existence, this natural advantage would not

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be diminished to the extent of a fraction of an iota. Consider the American agriculturist. He pays higher wages than his foreign competitor. The tariff cannot help him, but, by increasing the cost of all his instrumentalities of production, greatly injures him. With a surplus product in excess of any home demand to be disposed of, *no amount of other domestic industry can determine his prices.* How, then, can he undersell all the other nations, and at the same time greatly prosper individually? Simply because of his natural advantages of sun, soil, and climate, aided by cheap transportation and the use of ingenious machinery, which, combined, give him a greater product in return for his labor than can be obtained by the laborers in similar competitive industries in any other country. What has he to ask of government other than it will interfere with him to the least possible extent?"

We should not be satisfied with observing that the tariff operates in one way to diminish the wages of farm labor until we have examined farther to see if it may not in other ways oper-

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ate to increase the wages of that labor, and, if so, balance the two before we can determine the real effect upon the American farm laborer of sweeping the tariff out of existence. His wages now must be the same as those of other labor of the same quality engaged in other occupations. If it were not so he could obtain more of the commodities he is producing by working in these other occupations and exchanging for them. The value of his products in exchange elsewhere not being in the same proportion to his cost of labor to obtain them (his competition being limited) as to the cost of labor to obtain where the "sun, soil, and climate" are less favorable and more rent demanded for their use, he is compelled to pay a bounty of "sun, soil, and climate" to all other laborers in the same community. The tariff compels him to pay it to those laborers engaged in commodities that might be obtained elsewhere—laborers that are limiting his competition by that employment—that they too may share these advantages which otherwise they must purchase upon the same terms that the labor of less fa-

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vored communities must do. Remove the tariff and he no longer need pay that bounty to the laborers producing those commodities that he can now exchange for elsewhere, nor share with them the profit of these natural advantages; and his wages will thereby be increased and the wages of this other labor reduced.

We now have in the same community different occupations for labor with very unequal wages. Where now will this labor, in occupations of less profit, seek employment, except in his, the most profitable one in the community, and how can it enter that occupation without increasing the demand for land, which must be followed by increased rent of the very land he is employed upon, and reduce his share of the product of that land, even if the quantity of his commodity now produced by this added labor, and all of which must be exchanged elsewhere (for commodities that before were produced at home), would not reduce the price of it? But is it possible to carry this increased quantity of a commodity, in which rent is a component part of value, into the same markets

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without reducing the value of it?* If so, the law of supply and demand must again be tested. The increasing supply of food in those markets will reduce the demand for land elsewhere and enable labor elsewhere to obtain that part of its food produced at home under the more favorable condition of production of less rent; and the exchange there between food and other commodities that it must be exchanged for will be proportionate to the reduced cost of labor to obtain food, and the profit of exchange of his commodity and labor reduced.

* It might appear that the price of commodities of agriculture need only be slightly reduced to induce labor elsewhere to shift from agriculture into these other occupations; but with every increase in supply of commodities of agriculture rent must be reduced elsewhere (except in communities of advantage, where it may be deducted from labor's share), and labor will not be allowed to abandon agriculture so long as any rent can be obtained, and every reduction in rent elsewhere will reduce labor's advantage in the more favored community.

If an increased quantity of a commodity in which rent is not a component part of its value should be taken into those markets, it would not decrease the cost of labor to obtain the same commodity in production there, and the value of it would only be reduced sufficiently to induce labor to shift occupations, until a greater quantity was taken than it consumed, except in a community having no other commodity, that was not of less advantage, that its labor could shift into.

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Assuming that these commodities of agriculture were not being maintained above the point of real advantage, that is, above that price at which they would exchange with the greatest total profit elsewhere, then the reduction in the profit of exchange of that part previously sold elsewhere will be greater than the profit of exchange of the additional quantity. Now the increased share of rent in the production of the products of farm labor consumed at home, and the net reduction in the profit of exchange, must come out of the labor of this community, and this farm laborer must share in the general reduction of profit of all labor. The "sun, soil, and climate" will remain exactly as before, but labor will have lost a part of its advantage.

It is not intended to prove by this illustration that our protective tariff benefits farm labor or all labor of this community, for it is only upon the assumption that these commodities of agriculture are not being maintained above the point of real advantage that it is shown to do so. If, on the contrary, they are being maintained above

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this point the removal of the tariff would not reduce the profit of exchange on the present quantity sufficiently to equal the profit of exchange of the additional quantity that would be exchanged under these circumstances, and the net increase in the total profit of exchange might be greater than the reduction in labor's share (which must take place with the production of the additional quantity), in which case the standard of farm labor and all labor in this community, a larger part of which must then engage in agriculture, would be improved by sweeping the tariff out of existence.

It is the purpose only to show the important operative effects of the tariff upon the standard of farm and consequently all labor in this community; which, by keeping labor employed in other occupations that otherwise must enter this one, maintains the value of farm products in exchange elsewhere and maintains labor's share of these products — effects which are not considered in the illustrations from which Mr. Wells draws broad conclusions, and effects which must be considered and accurately measured in every

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case before it can be determined whether any particular restrictive measure will injure or benefit the labor of a community that adopts it. The effect of a restrictive measure in this way to maintain the profit of exchange may be greater or less than its effect in other ways to reduce it, and it is the balance of the two which must determine whether the measure is one of advantage or disadvantage to a community.

Employing labor in occupations that it would not naturally engage in, even though they are of great disadvantage, and the profit of exchange and standard of a community are thereby reduced (and this policy would be indefensible), still this labor is kept out of occupations that it otherwise would engage in and that may be exchanging an advantage elsewhere, and the profit of that advantage is greater by this limitation of competition in it than it otherwise would be. And any policy that limits competition in an advantage that would not otherwise be maintained must be credited with the increased profit of that advantage before the balance of profit and loss of exchange re-

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sulting from any restrictive measure can be determined.

Had both of these elements been equally considered we should doubtless now be able to determine the profit or loss in exchange that any restrictive regulation would cause under different circumstances. The same restrictions are capable, under different conditions, of producing widely different results; and exactly reverse policies in contrasting countries with respect to the same commodity will in some cases be to their advantage.

A reduction in the price of cotton would affect reversely the countries that are producing and those that are consuming it only. An import tax upon wheat in Great Britain might increase the capitalization of its soil and reduce rent in other communities.

Notwithstanding the widely contrasting effects of different restrictive policies, and of the same restrictions under different circumstances, all restrictive measures have been considered as protection; and frequently when some particular policy of protection has been adopted or

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abandoned with apparently beneficial results the evidence has been employed as an argument for the abandonment or adoption of some other protection of a wholly different character, or, if of the same, operating to produce very different results in some other community; and the historical evidence of advantages and disadvantages of this undefined protection has filled the minds of men with the greatest confusion.

We have less occasion for surprise at the partial consideration this subject has most commonly received when we examine the many wasteful and oppressive policies that have sailed under the name of protection.

If we test the restrictive corn-laws of England that so depressed the labor of that country and gave birth to the Manchester School, we shall find those restrictions, or that protection (as it has been called), to be in absolute opposition to the principles of the protection we have defined and to the laws for the economical administration of it that our examples establish. For, in the first place, if the English were attempting to protect agriculture, they were try-

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ing to protect the value of commodities in which the labor of that country had its greatest disadvantages of production, and these commodities they were not exchanging elsewhere, and they were already completely protected by capitalization or rent. If their object was to protect the value of some commodities that they were exchanging with profit elsewhere, by inducing labor to enter agriculture, then they were trying to induce labor to enter not only the occupation in which labor had the greatest disadvantages of production, but an occupation limited by nature and already completely taken up. Therefore the result of their policy, which has been called a protective one, was to maintain the demand for and value of land—a limited gratuity which had been already completely capitalized by an unlimited competition—and the policy was—whatever they might have intended it to be—that of artificially maintaining the capitalization of a gratuity, making it simply a policy of protection for capitalization. This policy, our examples have almost too plainly shown, is the most fatal one that can be employed for reducing the

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standard of labor. Nor can we wonder that the enthusiasm that this triumph of the economists in overthrowing this protection of capitalization engendered led them to make broader conclusions than they had established.

The wastefulness of labor by an experimental policy is necessarily great, and should be considered. If in Utopia the abundant leisure that its gratuity made possible was improperly made use of by many, and the standard of character reduced proportionately as their standard of living had been improved, and the government, after a time, should find that one half of its population had become idle convicts, then the labor that was unfortunate enough to be left outside of the prison gate would have to work seven hours a day to support themselves, and an equal number of hours to supply these prisoners with their food and shelter. It would seem that this great burden would more properly fall upon the guilty convicts, and that they should be made to support in idleness the more worthy part of the community.

This illustration makes absurd that fear of

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some misguided laborers that convict labor will reduce their standard of living, and shows that it is impossible to maintain as high a standard when convicts are idle as when they are at work.

When a labor-saving appliance is first introduced, it causes more or less temporary hardship to the particular labor that it supplants until that labor can get comfortably settled in some other occupation; but when the supplanted labor has done this, it receives with the rest of the community its full share of the increased product of this very machine that had so rudely treated it. When a community adopts the policy of making its convicts labor, the effect is precisely the same as the introduction of a labor-saving machine. Into whatever field of labor these convicts enter, they must displace and force other labor to shift occupations. It may be at some loss and inconvenience at first, but as soon as the community has become adjusted to this new relation, all share the product of this added convict labor; but if the community, as too many have done, makes its convict policy an experimental one, and should, for ex-

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ample, employ this labor in the manufacture of brushes until all the brush labor had suffered the loss that shifting occupations had entailed, and then abandon the brush business and take up that of brooms, then the whole broom industry must be disturbed by this useless change. Perhaps some of the very brush labor would now be found making brooms, and must again be forced out at great inconvenience and loss. Such an unsettled policy would be a menace to others who feared the next blow might come to them. This changing policy has too frequently been the practice in the employment of convict labor, and perhaps the loss to a community by this experimental policy may equal the gain that the added labor of the convict produces. So must the waste be in a national experimental policy that forces the redistribution of its labor without adequate cause.

The loss of wealth to this country by the recent enforced idleness of labor has been very great. This idleness was partly* due to the fear

* Although principally due to the great reduction in the profit of exchange of commodities that we export and to which

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and expectation that a redistribution of labor must follow the change in policy. How important to labor that it should be a successful one; and how unfortunate it is that the uncertainty is so great that it must be called by its advocates an experimental one; and how comfortable we should feel if the results promised had been a matter of demonstration instead of opinion!

Although the redistribution of labor in itself is attended with great loss it is not a valid reason for refusing to direct labor into occupations that will maintain the greatest profit in exchange and the highest standard of labor.

Upon the assumption of many economic writers labor is made to appear as born into various employments and almost incapable of shifting occupations. And most restrictive regulations have been considered in the light of being either oppressive or of advantage to some particular labor, instead of being, as they always must be (deducting the loss to some particular labor in making the change), either

the exchange value of other commodities and the wages of labor must be adjusted.

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oppressive or of advantage to all labor in the community. A moderate policy of distribution of labor requires but little change of occupation. The great stream of exhausted labor flowing continually out from every occupation and never returning to compete for employment in others, and the incoming tide of labor preparing itself for the occupation that may seem to be the most profitable to enter, make possible a great change in the proportionate labor in different occupations without change from one to the other at all.

No protective system, so far as I am aware, has ever been understood to be for the purpose of protecting the advantages of production of labor by limiting the competition of labor in them for the profit of exchange elsewhere, and limiting it only to that degree that will maintain the value of commodities of advantage at that point that will yield the greatest total profit that it would be possible to obtain by the sale of these commodities to less favored countries. If this principle has been understood by the

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economists or legislators they have been wonderfully silent about it, and yet it is this protection alone that can be defended for the purpose of improving or maintaining the standard of labor.

I think John Stuart Mill asserted that many industries might be incapable of establishing themselves in a new country that could profitably maintain themselves when once in successful operation, and approved the policy of moderate protection for a limited time in an undeveloped community on the ground that it was desirable for a nation to have within its limits a great variety of production, and that it might well stand the expense for the advantages gained by this policy. It was mainly upon this ground that the advocates of the system in the early history of the United States based their arguments to support it. These arguments show that the principle of the most profitable exchange or sale of gratuities was not comprehended; otherwise it must have been perceived, as our examples have demonstrated, that labor cannot be maintained in two occupations in the

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same community so long as it can obtain more of the products of one by working in the other; so that in a favored country, as soon as protection was withdrawn from these newly created industries, labor must abandon them and enter the gratuitous ones, and remain employed therein until it can obtain in production these commodities of less advantage at as low cost of labor as they can be obtained by exchange.

Failure to perceive the real protection to the profit of exchange afforded by these means of keeping labor employed outside of these occupations of greatest advantage has led the advocates of the system to base their arguments upon grounds that could not be maintained, and has exposed the system itself to the severest criticism.

To quote from the Hon. Henry Fawcett: "A well-known American economist, Professor Sumner, has said: 'Instead of strong, independent industries, we have to-day only a hungry and clamorous crowd of "infants."' Again, Mr. Wells, with equal force, has remarked: 'Although the main argument advanced in the

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United States in support of protective duties is that their enactment is intended to subserve a temporary purpose, in order to allow infant industries to gain a foothold and a development against foreign competition, there has never been an instance in the history of the country where the representatives of such industries, who have enjoyed protection for a long series of years, have been willing to submit to a reduction of the tariff, or have voluntarily proposed it. But, on the contrary, their demands for still higher and higher duties are insatiable and never intermitted.' "

It is clear that these writers have their attention fixed only upon the means of protection, or they could not but perceive that inducing labor from occupations of greater into occupations of less advantage increases the percentage of profit of exchange of the greater advantages and the difference in the percentages of profit of these occupations, consequently those of less advantage would require a greater bounty to maintain them than before. The only evidence needed to determine the profit of

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some greater advantage in exchange elsewhere is the amount of bounty required to maintain labor in an occupation of equal advantage; so that these industries will remain "infants" so long as labor has greater advantages in the exchange of other products of labor elsewhere, and will not become strong enough to maintain themselves and the labor engaged in them until labor has lost the profit of exchange of its advantages of production.

When people have attempted to defend protection by other arguments they have too frequently employed the specious "sophisms of protection" that the older countries have given birth to upon occasions when a particular industry has been threatened with the invasion of competition, and most, if not all, of these ingenious arguments have been exploded by the economists.

The true principle of protection—that is, the protection of the advantages of production of labor and the profit of exchange—not having been understood or defined, it has been left to the revenue policies of the more recently devel-

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oped countries to accidentally bring about such distributions of labor as seem to be of advantage in some of them; and upon these apparently profitable results a powerful instinct of protection has been created that has maintained itself against the more powerful arguments that have been brought against it.

During the late Civil War the United States, to obtain revenue, was obliged to place a large import tax upon nearly all manufactured commodities, and this excessive war tariff, as it has since been called, at the time of its enactment could have found no defenders except upon the ground of necessity. This necessity did not cease with hostilities. The enormous debt that had been created by the war had to be paid, and the burdensome, oppressive tariff was allowed to continue. Contrary to expectation, and in defiance of economic opinion, there began, under this tyrannical rule, a marked improvement in the standard of labor that has continued to the present time.

As my subject has to do only with the wealth of labor, I am denied the pleasing task of relat-

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ing the other developments of this great nation during this period, unparalleled in history, the wonder of mankind.

Ignorance of the civil law is held to be no defense against its penalties. One may claim mercy, but even the quality of mercy is unknown to natural law. One may ignorantly conform to it and reap its benefits, and as ignorantly oppose it and meet destruction. I watched with great interest the outcome of a quarrel between two partners of a dry-goods establishment. They separated, mutually vowing each other's destruction. Then began ruinous prices, and both rapidly became rich from the small profits of their tremendously increasing sales. The law of the nimble sixpence saved them from themselves.

The accidental or incidental limitation of competition in our gratuitous commodities that the excessive war tariff accomplished, by multiplying the opportunities of labor in other occupations at equal profit, has been an important factor in maintaining the profit of exchange and standard of labor. I should not dare say that

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at this period we were threatened with an increase of population that would prevent the sale of our gratuities, and I should be more ready to believe that too much labor was kept from gratuitous occupations; and it is certain that a great quantity of labor has been employed in wasteful ones, and the standard of labor improved less than it might otherwise have been. Labor, being relieved from the exhaustive burden of the war, must have been improving its standard anyway, and was not likely to feel or notice wasteful protection. Be that as it may, we do know that the standard of labor soon became so apparently better here than elsewhere that it attracted the labor of other countries.

In the earlier period of this country's history, outside of the cotton belt, exempt by its slave system from that strict obedience to the law of exchange that other labor is subjected to, it does not appear that we profited much by the sale of gratuities. Our examples have demonstrated that in a community exchanging an advantage elsewhere labor cannot engage in other occupations in which it has less advantage without a

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bounty of some sort. Those who recollect the good old days will never cease to deplore the loss of our merchant marine. When we were the rivals of England in this maritime commerce we either were exchanging with no great profit, or labor had some advantage of production in this very occupation. To illustrate: suppose our islands stood in the path of commerce, a menace to navigation, and a vessel arrived in the race commissioned to build a lighthouse there. The contractor, expecting to engage labor from these islands, has brought the commodities that he knows they require to pay for their services. He easily engages men from Barren Island by paying them for eleven hours' work the same amount of commodities, or the same wages, that they have commonly to work twelve for. What success do you suppose he would have in making the same offer to Fertile Island labor? They would reply, "The wages you offer are much less than we are now earning; the business is too poor for us." Fortunately for our happiness, though a disappointment to pride, the merchant marine became too poor a business

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for us; and let us hope that we may not be obliged to take it up again, or that it will become profitable to do so, except by equalizing the profit of labor in that occupation to that of its greater profit in other occupations that we may engage in.

When labor enters this or any other field wherein it has no advantage of production and in which the labor of another country has the opportunity of engaging, it must accept the wages and standard of living to which the labor of the other country is accustomed. Unless we had an advantage of production in this particular occupation then, or they have now, our standard has improved relatively to theirs.

Who among the descendants of the native stock with a spark of sentiment in their breasts can look unmoved upon the abandoned homes of rural New England? To one who loves to graze in the fields of melancholy where can richer pastures be found? Yet these same deserted farms would maintain to-day a higher standard of living than our ancestors could make them yield; but richer soil, greater luxury,

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stronger than the cords of sentiment which bound the youth of this region, have tempted them elsewhere. The abandoned marine shows a relatively improved standard; the deserted farm an absolute one.

Although a relative and an absolute improved standard of labor have taken place under this restrictive policy, it does not follow that they are due to that policy, and it would be a marvelous coincidence if this system, devised for another purpose, should by accident be capable of, and by accident be employed in the way of, maintaining the highest standard of which the circumstance would permit. It cannot be doubted that this accidental limitation of production of gratuities has in some degree maintained their value and enabled us to exchange them with greater profit elsewhere, and has also in some degree maintained labor's share in those advantages by preventing a greater proportionate capitalization of them than would otherwise have taken place with the same increase in population; but it is equally certain that these advantages have been secured by inducing labor into

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less profitable occupations than it was necessary to do in order to have gained them. It has already been pointed out that an import tax can only equalize the occupations of labor in commodities that are being imported, and that it is even more important to equalize the profits of labor in commodities that are being exported in order to maintain the greatest profit of exchange elsewhere. It is not to be wondered at that this imperfection in the system has not been noticed when so many of its advocates have thought it to be wasteful for a nation with advantages to exchange at all elsewhere, and so many of its opponents have believed it wasteful to limit at all exchange elsewhere; and the error of both of these opinions may be accounted for when we consider that they are based upon a mistaken (means-for-the-end) protection already pointed out. When widely divergent opinion is for a long time maintained by persons equally desirous of learning the truth, when at last discovered it will in most cases be found to lie somewhere between the extremes of that opinion. It is full time that we should understand

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that the standard of labor with advantages of production depended upon both the profit of exchange and the limitation of it; and that the limitation is desirable not because exchange is not profitable, but that it is necessary in order to maintain the greatest profit of it; and that the extent and means of limitation are as important as the limitation itself, for the whole advantage of limitation may be canceled by wasteful means. A large and increasing population has appeared to make it necessary to find employment for a great amount of labor outside of occupations of greatest advantage. And as our import system could not induce it to enter occupations of lesser advantage to the extent of reaping the profit that might be obtained by the exchange of them elsewhere, it has been directed into occupations of greater and greater disadvantage, and it is only a question as to how far this shall continue before the loss in these occupations will cancel the profit of the greater ones.

We are giving employment to labor in occupations of great disadvantage that might be

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employed in those of great advantage without interfering with the profits of exchange of still greater ones at all. In a community that is maintaining the profit of some greater advantage a lesser advantage appears to be a disadvantage, because the occupation cannot be taken up without receiving bounty; but it must receive this bounty, not because it is an occupation of less advantage than the same occupation in some other community, but because it is of less advantage than some other occupation in the same community. An occupation is not one of disadvantage in a community unless it requires more bounty to maintain it than the profit of labor in its greatest advantage.

Assuming the profit of labor in commodities that are being exported from this country to be twenty-five percent., then a duty of twenty-five percent. is necessary to keep labor employed in occupations in which it has equal advantage with other favored communities, and fifty percent. is necessary to employ labor in occupations of twenty-five percent. disadvantage. Under our import system no commodity in which labor

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has less than this twenty-five percent. advantage can be exported at all.

Suppose our great advantage in transportation to give labor here an advantage of production in the manufacture of cotton cloth, but one somewhat less than its present advantage in cotton or wheat. How, except by the equalization of profits, can this country expect to reap the profit of exchange of its advantage in cloth until enough cotton and wheat have been produced to reduce their value so that the advantage of labor in the exchange of cotton and wheat would be no greater than its advantage would be in the exchange of cloth?

We have many commodities in which five percent. bounty would induce their exportation at twenty percent. profit, and where ten percent. bounty would return fifteen percent. profit. We could employ labor in an occupation of equal advantage allowing twenty-five percent. bounty, and exchange for commodities of twenty-five percent. disadvantage, and save the loss of twenty-five percent., as compared with giving the fifty percent. bounty necessary to induce

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labor to produce that commodity. All the profits of lesser advantages are net gain and need not interfere at all with the profits of greater ones.

We have many great manufacturing industries that are on the point of exportation and some that have already commenced, showing that they have great advantages; and those engaged in these occupations see that by a slight reduction in wages greatly extended traffic in their commodities could be made elsewhere, and some would consent to see the profits of labor in occupations of still greater advantage reduced in order to reap the profits of their own in exchange elsewhere. It has not been understood that the wages of labor might be maintained and also the profits of exchange elsewhere of all these occupations obtained by the equalization of the profits of labor in the exchange elsewhere of all commodities of advantage.

We have not considered transportation because it has nothing to do with the principles of the exchange of an advantage of production,

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but it is a most important factor in determining the advantage itself. As we have shown, transportation must be deducted from the profit of an advantage in exchange, so that every reduction in the cost of transportation must increase the profit of exchange and make the real advantage greater.

A nation with great advantages should not neglect any opportunity of making them still greater by facilitating their distribution. The merchant marine is one of a very few occupations of disadvantage that a favored country can profitably maintain with a bounty, but it is by no means certain that we have not equal advantage in this very occupation. We have great advantages in the manufacture of cottons notwithstanding the bounty necessary to maintain labor in that occupation, and we should be reaping the profit of exchange of this and all other occupations of advantage elsewhere, not waiting until we have given away in exchange the profits of some greater ones, but by equalizing the profits of labor in commodities of lesser advantage that should be exported to

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the greater profit of labor in other commodities that are already being exported. Apparently labor is thought by many to be the end and not the means of obtaining that which is desired, and they behold with envy the work that cheap labor of other communities can obtain, and would almost willingly reduce the standard of living if they could only have this added labor to perform. There is no more common error than that cheap labor gives to a community an advantage of production. It is because the labor of a community has less advantage of production than that of some other that the labor of the same quality in it is cheaper, and this cheap labor must take up with such opportunities as would be spurned by the labor of more favored communities. But we must not make this mistake, and in the search for occupations for labor must not forget that it is a profitable employment that we are seeking, and must not overlook the vast field of our lesser gratuities.

Nor must we conclude, because the freest exchange and competition in every community

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are most advantageous to its general welfare, that unlimited competition in exchange elsewhere must be desirable—advantages are lost as well as gained by competition. The labor of every occupation is benefited by the competition of labor in every other occupation, but must lose its advantage by competition in its own. Competition reduces the advantages of different occupations to a common level, and forces labor to exchange on the basis of proportionate value of service rendered rather than upon advantages in production that are not due to that service, and thus contributes to the general welfare. It distributes the advantages of production of a community throughout the whole community; but its power does not end here, for it will operate just as effectively to distribute them elsewhere, and yet it has no power to reach the advantages of other communities except by operating in them and with their consent. So that a nation is not helped in the least to obtain the advantages of other communities (without some concession on their part) by giving up its own to unlimited compe-

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tition. This power of competition to force the distribution of advantages of production is precisely why for the general welfare of a community it should be unlimited in it, and yet limited to it.

The advantages of some communities are so limited that they will be maintained without limiting competition in them. The population of others is so small that competition need not be limited to maintain the point of real advantage. In still others the very conditions of production that give to them advantages in some commodities are unfavorable to the production of most others, and the profit of exchange that they might gain by limiting the production of commodities of advantage would be lost in the increased production of those of disadvantage. But the United States is most fortunately situated to maintain the profit of exchange of its advantages. The extent and variety of its resources are so great that labor need never be induced into occupations of disadvantage in order to maintain the profit of its advantages.

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The earliest settlers of this country did not come here to improve their standard of living or to sell gratuities. They fled to escape persecution, and perhaps to practise it. New England offered but few advantages of production to the laboring man, and the cost of transportation from other more fruitful regions reduced the chance of very profitable sale of gratuities. The multiplied occupations for labor that this high tariff made possible, combined with the monopoly that the government promised the inventor, stimulated the production of labor-saving appliances, and was followed by a reduction in the cost of transportation which still further increased the chance and profit of sale. It required a great amount of labor to make our gratuities available—to uncover them, as it were—and a still greater amount to equip a national plant for most economical production and distribution of them.

But there is a point of real advantage in population as well as in the profit of exchange. An increase in population up to that point will be accompanied with a greater proportionate increase

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in the advantages of production of labor and the profit of exchange elsewhere. Beyond that point the proportionate increase in advantage will not be maintained and the standard of labor must be proportionately reduced. That this must be true will be readily admitted by every one who stops to consider the absurdity of either alternative.

One developing a new and successful business may take on a partner, and his share of the divided profits may amount to more than the whole profit before, and others may be added to the partnership with equal success. But suppose the original one in the enterprise, after having secured all assistance that this now fully extended business required, should attribute all profit and success in business to the multiplication of partners. Who cannot see that this is the dangerous mistake that the labor of this country is most likely to make? I will not say that the point of real advantage in population has been reached, but if not already here, it is fast approaching, and the time to consider danger is before one is overwhelmed

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by it. The economists have shown that with unlimited competition eventually the same quality of labor in different countries must accept the same general profit or wages, and our examples only confirm the truth of these assertions.

In earlier times the operation and effect of this powerful law were retarded and defeated by many circumstances—difficult and expensive transportation, national prejudice, uncertain information, and a hundred other impediments which in modern times are fast being removed, and now this law can accomplish its ends in the more civilized communities with comparative rapidity.

Having provided the labor of Fertile Island with an effective policy whereby it might absorb with a small cost of labor the one hundred additional laborers which the dark cloud of competition unloaded upon it, and might continue the profit of exchange and prevent the capitalization of their gratuities, we left them helpless against the swarms that are sure to follow when their high standard of living is made known elsewhere. It is plain to see that more

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labor can be provided for in exactly the same way, but with every additional laborer the profit of exchange must be divided with a greater number and the standard of living is slightly reduced. Every new arrival becomes a partner in the consumption, a competitor in the sale, and a promoter of the capitalization of their gratuities; so we see the black, threatening cloud still hovering over them, loaded with the competition that will eventually destroy the value of the policy so carefully planned and adopted. A restricted policy of exchange is only a temporary or partial solution for these favored countries, and to this must be added a policy of restricted immigration to make it a permanent or final one.

Why should not immigration be restricted? If you answer that a nation has no right to appropriate its gratuity, and with Bastiat hold that this cheapness belongs to the world, you will have made an admission that perhaps will surprise you.

Our examples have shown that when a gratuity became completely capitalized it was not

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only impossible for the world to share that gratuity, but some individuals in the same community could not do so. To hold that some part of these advantages cannot properly be maintained and withheld from the rest of mankind by a nation possessing them, and that they may be owned and withheld from all mankind by individuals of that nation, is untenable.

At the outset we did not desire or expect to be oppressed by this ogre, capitalization. It crept stealthily into our illustrations, and as soon as it attracted notice boldly declared itself to be an enemy of labor. Its ugly appearance does not disqualify it from making a defense for its life, and it may be in possession of one as invulnerable as that of the capital of stored-up labor. But since the better it can support its claims to existence the more certainly will labor have to take the consequences of its increase, and as no one can properly demand that an increase should take place on account of labor or service already rendered (it being independent of both), why, then, may it not justly be arrested by limiting immigration be-

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fore the pressure of competition bears as heavily upon the labor of this country as it does in most others, and perhaps forces the issue here that is suggested by the comparison of the opposite effects of the proportionate increase of these two different kinds of capital upon labor, the one that operates to reduce its standard and the other to improve it? Since, then, we see that by the limitation of exchange and the restriction of immigration, before we spread over the whole field of our gratuities, we can attain and maintain such a high standard, why should we not avail ourselves of the opportunity? We are now put in the attitude of declaring to the world that we will not divide with those abroad, but will gladly share with them at home. If we decide to give away our gratuities, why do it in such a niggardly fashion and put others to all the unnecessary expense of moving for it?

On the other hand, if we refuse to give our gratuities abroad, why should we not receive pay for them at home? If we have all the partners that we can admit without a reduction to our present profit, and others desire to enter

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this more lucrative trade, why should they not buy an interest in the business? If the nation has a right to protect these gratuities, why should it not capitalize them so far as outsiders are concerned? This would in a measure compensate for the excessive capitalization of them which must follow increased population to the great disadvantage of all labor here, and it seems to be an equitable solution of the matter. We have only to decide the value of the privilege to become a citizen of this favored country, and fix a price upon it. Such a policy would certainly prevent the unloading of pauperism upon us. We should most likely obtain partners only who would be of some value to the enterprise.

Citizenship would become of greater worth. It would give to patriotism a new birth. Who can now look into the future with any great hope or pride of expectation? Our country has been called the asylum of the world; but let us not, on this account, make of it an almshouse where pauperism can flock and breed and multiply, not only burdening a nation with their support, but disgracing it with their off-

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spring. Rather make it the asylum, as it was the cradle, of liberty, of hope, of freedom, of independence, and with labor still selling its gratuities.

We may delight to be borne upon the wings of enthusiasm with the "silver-tongued orator," as he takes his flight to the very summit of that lofty destiny that this nation will achieve, picturing every State an empire teeming with its countless millions; but we cannot maintain ourselves in this cloud of glory, and soon must drop into the abyss of poverty and misery that always attends great pressure of population.

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